

**SHERMAN INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE**  
**YEAR ENDED JUNE 30, 2020**

SHERMAN INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2020

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
CERTIFICATE OF BOARD	2	
Independent Auditors' Report	3	
Management's Discussion and Analysis	5	
<u>Basic Financial Statements</u>		
Government Wide Statements:		
Statement of Net Position	14	A-1
Statement of Activities	15	B-1
Governmental Fund Financial Statements:		
Balance Sheet	16	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	20	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	23	C-4
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	25	E-1
Statement of Changes in Fiduciary Net Position	26	E-2
Notes to the Financial Statements	27	
<u>Required Supplementary Information</u>		
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	58	G-1
Notes to Required Supplementary Information - Budget Information	59	
Schedule of the District's Proportionate Share of the Net Pension Liability - Teacher Retirement System of Texas	60	G-2
Schedule of District's Contributions for Pensions - Teacher Retirement System of Texas	62	G-3
Schedule of the District's Proportionate Share of the Net OPEB Liability - Teacher Retirement System of Texas	64	G-4
Schedule of District's Contributions for Other Post Employment Benefits - Teacher Retirement System of Texas	65	G-5
Notes to Required Supplementary Information - Pension and OPEB Information	66	
<u>Combining Statements</u>		
Nonmajor Governmental Funds:		
Combining Balance Sheet	68	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	72	H-2
<u>Required TEA Schedules</u>		
Schedule of Delinquent Taxes	78	J-1
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Child Nutrition Program	80	J-2
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund	81	J-3
<u>Federal Awards Section</u>		
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	85	
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	87	
Schedule of Findings and Questioned Costs	89	
Schedule of Status of Prior Findings	91	
Corrective Action Plan	92	
Schedule of Expenditures of Federal Awards	93	K-1
Notes on Accounting Policies for Federal Awards	95	

CERTIFICATE OF BOARD

Sherman Independent School District  
Name of School District

Grayson  
County

091-906  
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended June 30, 2020, at a meeting of the Board of Trustees of such school district on the 16th day of November, 2020.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

### **Independent Auditors' Report**

To the Board of Trustees  
Sherman Independent School District  
Sherman, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sherman Independent School District (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's 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 Standard* 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 District'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, each major fund, and the aggregate remaining fund information of Sherman Independent School District as of June 30, 2020, and the respective changes in financial position 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* on pages 5 through 12, the *budgetary comparison information* on pages 58 and 59, and the *pension and OPEB schedules* on pages 60 through 66 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 Sherman Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the required TEA schedules, and the schedule of expenditures of federal awards 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 nonmajor fund financial statements, the required TEA schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2020 on our consideration of Sherman Independent School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Sherman Independent School District's internal control over financial reporting and compliance.

*Hankins, Eastup, Deaton, Tonn & Seay, PC*

Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

November 9, 2020

**SHERMAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020  
(UNAUDITED)**

As management of Sherman Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2020.

**Financial Highlights**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,336,948 (*net position*).
- The District's total net position increased by \$4,672,217 during the current fiscal year from the result of current year operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$99,786,739 a decrease of \$80,910,916 in comparison with the prior year. The decrease in governmental fund balances was due to an increase in the General Fund balance of \$4,543,803, an increase in the Debt Service Fund of \$67,671, offset by a decrease in the Capital Projects Fund of \$85,599,185.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$28,389,316 or 40.5 percent of total general fund expenditures.
- The District's total bonded debt (par value) decreased by \$4.8 million during the current fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information and other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

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

The *Statement of Net Position* presents information on all of the District's assets and deferred outflows of resource, and liabilities and deferred inflows 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 District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).



The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, and Appraisal District Fees. The government-wide financial statements can be found on pages 14 and 15 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 and objectives. The District, 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 District can be divided into two categories: governmental funds and fiduciary funds.

### **Governmental Funds**

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

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

The District maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other twenty-one governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and Child Nutrition Fund special revenue fund.

The basic governmental fund financial statements can be found on pages 16 through 23 of this report.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The funds are custodial in nature.

The basic fiduciary fund financial statements can be found on pages 25 through 26 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 can be found on pages 27 through 55 of this report.

## **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. In addition, two schedules of required supplementary information are presented containing information on the District's participation in the Teacher Retirement System of Texas pension plan and two schedules are presented containing information on the District's participation in the Teacher Retirement System of Texas TRS-Care plan, an other post-employment benefit (OPEB) plan. The required supplementary information can be found on pages 60 through 66.

## **Other Information**

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 68 through 75 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,672,217 at the close of the fiscal year (net position).

The District's net investments in capital assets (e.g. land, buildings and improvements, and furniture and equipment) less any outstanding related debt used to acquire those assets, amounted to \$27,132,372. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District'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 cannot be used to liquidate these liabilities.



	<b>Governmental Activities</b>	
	<b>2020</b>	<b>2019</b>
Current and other assets	\$ 120,768,225	\$ 193,554,395
Capital and non-current assets	204,046,057	122,679,140
<b>Total Assets</b>	<b>324,814,282</b>	<b>316,233,535</b>
Deferred charge on bond refundings	64,260	311,682
Deferred outflows - pension	14,650,916	13,456,630
Deferred outflows - OPEB	7,596,805	2,397,831
<b>Total Deferred Outflows of Resources</b>	<b>22,311,981</b>	<b>16,166,143</b>
Current liabilities	22,561,201	14,678,977
Long-term liabilities	299,818,941	304,303,966
<b>Total Liabilities</b>	<b>322,380,142</b>	<b>318,982,943</b>
Deferred inflows - pension	6,189,667	3,469,676
Deferred inflows - OPEB	15,219,506	11,282,328
<b>Total Deferred Inflows of Resources</b>	<b>21,409,173</b>	<b>14,752,004</b>
<b>Net Position:</b>		
Net investments in capital assets	\$ 27,132,372	\$ 23,250,977
Restricted	10,536,009	10,298,162
Unrestricted	(34,331,433)	(34,884,408)
<b>Total Net Position</b>	<b>\$ 3,336,948</b>	<b>\$ (1,335,269)</b>

At the end of the current fiscal year, the District reports positive balances in net investment in capital assets, restricted net position, and unrestricted net position. The District's net position increased by \$4,672,217 during the current fiscal year.

	<b>Governmental Activities</b>	
	<b>2020</b>	<b>2019</b>
<b>Program Revenues</b>		
Charges for services	\$ 1,059,809	\$ 1,251,964
Operating grants	16,334,167	15,006,996
<b>General Revenues</b>		
Property taxes	54,382,621	52,404,703
State Aid - Formula Grants	31,300,532	24,569,922
Interest earnings	2,911,613	5,046,088
Other	322,739	78,674
<b>Total Revenues</b>	<u>106,311,481</u>	<u>98,358,347</u>
<b>Expenses</b>		
Instruction	50,232,513	46,245,695
Instructional resources and media services	1,313,758	1,260,245
Curriculum and staff development	1,547,581	1,515,354
Instructional leadership	1,276,203	1,264,513
School leadership	4,553,138	4,167,352
Guidance, counseling, and evaluation services	4,063,333	3,264,732
Health services	909,321	801,791
Student transportation	2,462,879	2,278,534
Food service	4,595,585	4,015,724
Extracurricular activities	2,104,802	1,914,994
General administration	2,689,896	2,751,989
Facilities maintenance and operations	8,571,468	7,483,191
Security and monitoring services	403,339	358,146
Data processing services	7,017,601	8,267,928
Community services	19,044	38,140
Interest on long-term debt	8,649,024	9,156,168
Bond issuance costs and fees	8,535	9,930
Facilities acquisition & construction	-	2,625,603
Other intergovernmental charges	1,221,244	871,087
<b>Total Expenses</b>	<u>101,639,264</u>	<u>98,291,116</u>
Increase (Decrease) in Net Position	4,672,217	67,231
<b>Beginning Net Position</b>	<u>(1,335,269)</u>	<u>(1,402,500)</u>
<b>Ending Net Position</b>	<u>\$ 3,336,948</u>	<u>\$ (1,335,269)</u>

## Governmental Activities

Governmental activities increased the District's net position by \$4,672,217. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent \$102,017,320 of total revenues. The remaining \$4,294,161 is generated from charges for services, investment earnings, and miscellaneous revenues.

	<b>Total Revenues</b>	<b>% of Total Revenues</b>
Property taxes	\$ 54,382,621	51%
State aid - formula grants	31,300,532	30%
Operating grants and contributions	16,334,167	15%
Charges for services	1,059,809	1%
Other revenue	3,234,352	3%
<b>Total Revenues</b>	<b>\$ 106,311,481</b>	<b>100%</b>

State aid increased \$6.7 million due to a significant change to the state funding formula passed by the Texas Legislature.

The primary functional expenses of the District are instruction, facilities maintenance and operations, and interest on long-term debt, which represent 66 percent of total expenses. The remaining individual functional categories of expenses are each less than 9 percent of total expenses.

	<b>Total Expenses</b>	<b>% of Total Expenses</b>
Instruction	\$ 50,232,513	49%
Facilities maintenance and operations	8,571,468	8%
Interest on long-term debt	8,649,024	9%
Other expenses	34,186,259	34%
<b>Total Expenses</b>	<b>\$ 101,639,264</b>	<b>100%</b>

## Financial Analysis of the Government's Funds

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

### Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the current fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$99,786,739, a decrease of \$80,910,916 in comparison with the prior fiscal year. The decrease in ending governmental fund balances is primarily due to planned spending for construction in the capital projects fund offset by increases in the general fund and debt service fund fund balances.

The *general fund* is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$28,389,316, while total fund balance reached \$28,771,962. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 40.5 percent of total general fund expenditures, while total fund balance represents 41.0 percent of that same amount. The fund balance of the District's general fund increased by \$4,543,803 during the current fiscal year. The increase in fund balance was due to a \$7.3 million increase in general fund state revenue because of new state funding legislation, and under-spending the amended budget by \$4.0 million.

The *debt service fund* has a total fund balance of \$12,599,763, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$67,671 was in line with budgeted expectations.

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	Budget	
	Original	Final Amended
Total revenues	\$ 72,708,475	\$ 75,611,963
Total expenditures	71,563,198	74,183,198
Other sources (uses)	-	-
<b>Net change in fund balance</b>	<b>\$ 1,145,277</b>	<b>\$ 1,428,765</b>

The review of the amended budget versus actual for the general fund reflected that revenues were more than budgetary estimates and expenditures were less than budgetary estimates, primarily in instruction.

### Capital Assets and Long-term Liabilities

#### Capital Assets

The District's investment in capital assets for its governmental type activities as of June 30, 2020 includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets as of June 30, 2020 was \$204,046,057. The following table summarizes the investment in capital assets as of June 30, 2020 and 2019.

	2020	2019
Land	\$ 6,164,564	\$ 6,164,564
Construction in progress	111,353,981	26,556,812
Building and improvements	132,005,108	131,559,170
Furniture and equipment	26,087,649	25,404,128
<b>Total</b>	<b>275,611,302</b>	<b>189,684,674</b>
Accumulated depreciation	(71,565,245)	(67,005,534)
<b>Net capital assets</b>	<b>\$ 204,046,057</b>	<b>\$ 122,679,140</b>

Additional information on the District's capital assets can be found in the notes to the financial statements.

## Long-term Liabilities

At the end of the current fiscal year, the District had \$299,818,941 in bonds and other long-term debt (including accreted interest on bonds) versus \$304,303,966 in the prior year, a decrease of \$4,485,025. The District's general obligation bond rating is "AAA" according to national rating agencies. This is the result of guarantees of the Texas Permanent School Fund.

Changes in long-term debt for the year ended June 30, 2020 are as follows:

	Balance 7/1/2019	Additions	Retired/ Refunded	Balance 6/30/2020	Due Within One Year
Bonds payable					
Carrying value	\$ 214,515,000	\$ -	\$ 6,820,000	\$ 207,695,000	\$ 2,895,000
Unamortized premium (discount)	28,073,908	-	1,605,345	26,468,563	1,897,323
Total bonds payable	242,588,908	-	8,425,345	234,163,563	4,792,323
Accreted interest payable	9,091,923	728,797	860,090	8,960,630	2,575,865
Vested sick leave benefits	470,682	140,684	49,104	562,262	91,580
Net pension liability	23,035,540	2,117,709	-	25,153,249	-
Net other post-employment benefits (OPEB)	29,116,913	1,862,324	-	30,979,237	-
	<u>\$ 304,303,966</u>	<u>\$ 4,849,514</u>	<u>\$ 9,334,539</u>	<u>\$ 299,818,941</u>	<u>\$ 7,459,768</u>

Additional information on the District's long-term liabilities can be found in the notes to the financial statements.

## Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Sherman-Denison was 6.8 percent in June 2020, compared to 2.9 percent in June 2019. The current rate is lower than the overall State of Texas' unemployment rate of 8.9 percent.
- The District's combined tax rate was \$1.5473 per \$100 of assessed property value in the 2019-20 fiscal year. The combined tax rate will decrease to \$1.4697 for next year (2020-21 fiscal year) due to rate compression required by the new state funding legislation.
- The local certified property values in July 2020 are estimated at \$4,052,299,629, compared to \$3,675,348,475 in the prior year.
- The District's student attendance rate in 2019-20 was 95.8%, compared to 94.5% in the prior year.
- The District's 2020-2021 adopted budget for the General Fund includes total revenues of \$77.5 million and total expenditures of \$77.4 million.

## Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Assistant Superintendent of Finance and Operations at the following address:

2701 Loy Lake Road  
Sherman, TX 75090  
Telephone: (903) 891-6400

## BASIC FINANCIAL STATEMENTS



SHERMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2020

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 107,781,022
1120 Current Investments	507,557
1220 Property Taxes - Delinquent	2,528,701
1230 Allowance for Uncollectible Taxes	(312,780)
1240 Due from Other Governments	9,879,779
1267 Due from Fiduciary Funds	1,300
1300 Inventories	214,325
1410 Prepayments	168,321
Capital Assets:	
1510 Land	6,164,564
1520 Buildings, Net	79,929,618
1530 Furniture and Equipment, Net	6,597,894
1580 Construction in Progress	111,353,981
1000 Total Assets	324,814,282
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge on Bond Refunding	64,260
1705 Deferred Resource Outflows Related to TRS Pension	14,650,916
1706 Deferred Resource Outflows Related to TRS OPEB	7,596,805
1700 Total Deferred Outflows of Resources	22,311,981
<b>LIABILITIES</b>	
2110 Accounts Payable	13,752,357
2140 Accrued Interest Payable	3,383,035
2150 Payroll Deductions and Withholdings	1,020,571
2160 Accrued Wages Payable	3,582,834
2177 Due to Fiduciary Funds	44,697
2300 Unearned Revenue	777,707
Noncurrent Liabilities:	
2501 Due Within One Year	7,459,768
2502 Due in More Than One Year	236,226,687
2540 Net Pension Liability (District's Share)	25,153,249
2545 Net OPEB Liability (District's Share)	30,979,237
2000 Total Liabilities	322,380,142
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Resource Inflows Related to TRS Pension	6,189,667
2606 Deferred Resource Inflows Related to TRS OPEB	15,219,506
2600 Total Deferred Inflows of Resources	21,409,173
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	27,132,372
3820 Restricted for Federal and State Programs	809,969
3850 Restricted for Debt Service	9,726,040
3900 Unrestricted	(34,331,433)
3000 Total Net Position	\$ 3,336,948

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

EXHIBIT B-1

Net (Expense)  
Revenue and  
Changes in Net  
Position

Data Control Codes	1	Program Revenues		6
		3	4	
		Charges for	Operating	Primary Gov.
	Expenses	Services	Grants and	Governmental
			Contributions	Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 50,232,513	\$ 235,143	\$ 8,287,266	\$ (41,710,104)
12 Instructional Resources and Media Services	1,313,758	8,864	62,081	(1,242,813)
13 Curriculum and Instructional Staff Development	1,547,581	1,881	688,428	(857,272)
21 Instructional Leadership	1,276,203	-	64,126	(1,212,077)
23 School Leadership	4,553,138	-	238,182	(4,314,956)
31 Guidance, Counseling and Evaluation Services	4,063,333	-	1,265,578	(2,797,755)
33 Health Services	909,321	-	47,032	(862,289)
34 Student (Pupil) Transportation	2,462,879	-	299,997	(2,162,882)
35 Food Services	4,595,585	474,399	3,971,865	(149,321)
36 Extracurricular Activities	2,104,802	326,457	45,737	(1,732,608)
41 General Administration	2,689,896	-	170,556	(2,519,340)
51 Facilities Maintenance and Operations	8,571,468	13,065	430,388	(8,128,015)
52 Security and Monitoring Services	403,339	-	7,012	(396,327)
53 Data Processing Services	7,017,601	-	569,448	(6,448,153)
61 Community Services	19,044	-	19,044	-
72 Debt Service - Interest on Long-Term Debt	8,649,024	-	167,427	(8,481,597)
73 Debt Service - Bond Issuance Cost and Fees	8,535	-	-	(8,535)
99 Other Intergovernmental Charges	1,221,244	-	-	(1,221,244)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 101,639,264	\$ 1,059,809	\$ 16,334,167	(84,245,288)

Data  
Control  
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	37,466,432
DT	Property Taxes, Levied for Debt Service	16,916,189
SF	State Aid - Formula Grants	31,300,532
IE	Investment Earnings	2,911,613
MI	Miscellaneous Local and Intermediate Revenue	322,739
TR	Total General Revenues	88,917,505
CN	Change in Net Position	4,672,217
NB	Net Position - Beginning	(1,335,269)
NE	Net Position - Ending	\$ 3,336,948

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 15,263,102	\$ 14,878,753	\$ 77,327,802
1120 Investments - Current	507,557	-	-
1220 Property Taxes - Delinquent	1,804,664	724,037	-
1230 Allowance for Uncollectible Taxes	(223,086)	(89,694)	-
1240 Due from Other Governments	7,297,250	-	-
1260 Due from Other Funds	12,280,265	-	-
1300 Inventories	214,325	-	-
1410 Prepayments	168,321	-	-
1000 Total Assets	<u>\$ 37,312,398</u>	<u>\$ 15,513,096</u>	<u>\$ 77,327,802</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 1,333,162	\$ -	\$ 12,138,936
2150 Payroll Deductions and Withholdings Payable	886,956	-	-
2160 Accrued Wages Payable	3,312,483	-	-
2170 Due to Other Funds	1,713,827	2,404,021	7,938,988
2300 Unearned Revenue	-	-	-
2000 Total Liabilities	<u>7,246,428</u>	<u>2,404,021</u>	<u>20,077,924</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	1,294,008	509,312	-
2600 Total Deferred Inflows of Resources	<u>1,294,008</u>	<u>509,312</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3410 Inventories	214,325	-	-
3430 Prepaid Items	168,321	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	57,249,878
3480 Retirement of Long-Term Debt	-	12,599,763	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	28,389,316	-	-
3000 Total Fund Balances	<u>28,771,962</u>	<u>12,599,763</u>	<u>57,249,878</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 37,312,398</u>	<u>\$ 15,513,096</u>	<u>\$ 77,327,802</u>

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

Other Funds	Total Governmental Funds
\$ 311,365	\$ 107,781,022
-	507,557
-	2,528,701
-	(312,780)
2,582,529	9,879,779
1,669,130	13,949,395
-	214,325
-	168,321
<u>\$ 4,563,024</u>	<u>\$ 134,716,320</u>
\$ 280,259	\$ 13,752,357
133,615	1,020,571
270,351	3,582,834
1,935,956	13,992,792
777,707	777,707
<u>3,397,888</u>	<u>33,126,261</u>
-	1,803,320
<u>-</u>	<u>1,803,320</u>
-	214,325
-	168,321
809,969	809,969
-	57,249,878
-	12,599,763
355,167	355,167
-	28,389,316
<u>1,165,136</u>	<u>99,786,739</u>
<u>\$ 4,563,024</u>	<u>\$ 134,716,320</u>

This page left blank intentionally.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2020

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 99,786,739</b>
1 Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund financial statements.	275,611,302
2 Accumulated depreciation is not reported in the fund financial statements.	(71,565,245)
3 Bonds payable are not reported in the fund financial statements.	(207,695,000)
4 Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.	(8,960,630)
5 Bond premiums and discounts on outstanding bonds payable are not reported in the fund financial statements.	(26,468,563)
6 Vested sick leave benefits payable are not reported in the fund financial statements.	(562,262)
7 Revenue from property taxes reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	1,803,320
8 Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are recorded when due.	(3,383,035)
9 The deferred charge on bond refundings is not recorded in the fund financial statements, but is shown as a deferred outflow of resources in the government-wide financial statements.	64,260
10 Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$25,153,249, Deferred Inflows of Resources related to TRS in the amount of \$6,189,667, and Deferred Outflows of Resources related to TRS in the amount of \$14,650,916. This results in a decrease in Net Position in the amount of \$16,692,000.	(16,692,000)
11 Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net Other Post-Employment Benefit (OPEB) liability required by GASB 75 in the amount of \$30,979,237, a Deferred Resource Inflow related to TRS OPEB in the amount of \$15,219,506, and a Deferred Resource Outflow related to TRS OPEB in the amount of \$7,596,805. This results in a net decrease in Net Position in the amount of \$38,601,938.	(38,601,938)
<b>19 Net Position of Governmental Activities</b>	<b>\$ 3,336,948</b>

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



SHERMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 38,177,959	\$ 16,969,588	\$ 2,408,051
5800 State Program Revenues	35,358,569	167,427	-
5900 Federal Program Revenues	1,143,502	-	-
5020 Total Revenues	74,680,030	17,137,015	2,408,051
EXPENDITURES:			
Current:			
0011 Instruction	41,206,785	-	-
0012 Instructional Resources and Media Services	978,859	-	-
0013 Curriculum and Instructional Staff Development	852,606	-	-
0021 Instructional Leadership	1,183,646	-	-
0023 School Leadership	4,186,295	-	-
0031 Guidance, Counseling, and Evaluation Services	2,745,268	-	-
0033 Health Services	849,335	-	-
0034 Student (Pupil) Transportation	2,434,793	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,702,494	-	-
0041 General Administration	2,460,099	-	-
0051 Facilities Maintenance and Operations	8,052,059	-	203,516
0052 Security and Monitoring Services	395,551	-	-
0053 Data Processing Services	1,875,448	-	3,733,977
0061 Community Services	-	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	4,770,000	-
0072 Interest on Long-Term Debt	-	10,225,800	-
0073 Bond Issuance Cost and Fees	-	8,535	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	84,069,743
Intergovernmental:			
0099 Other Intergovernmental Charges	1,221,244	-	-
6030 Total Expenditures	70,144,482	15,004,335	88,007,236
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	4,535,548	2,132,680	(85,599,185)
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	8,255	-	-
8949 Other (Uses)	-	(2,065,009)	-
7080 Total Other Financing Sources (Uses)	8,255	(2,065,009)	-
1200 Net Change in Fund Balances	4,543,803	67,671	(85,599,185)
0100 Fund Balance - July 1 (Beginning)	24,228,159	12,532,092	142,849,063
3000 Fund Balance - June 30 (Ending)	\$ 28,771,962	\$ 12,599,763	\$ 57,249,878

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

	Other Funds	Total Governmental Funds
\$	1,505,107	\$ 59,060,705
	1,378,714	36,904,710
	9,457,360	10,600,862
	12,341,181	106,566,277
	4,958,774	46,165,559
	21,169	1,000,028
	648,173	1,500,779
	1,442	1,185,088
	-	4,186,295
	1,111,442	3,856,710
	-	849,335
	-	2,434,793
	4,562,741	4,562,741
	210,049	1,912,543
	25,188	2,485,287
	194,188	8,449,763
	-	395,551
	512,176	6,121,601
	19,044	19,044
	-	4,770,000
	-	10,225,800
	-	8,535
	-	84,069,743
	-	1,221,244
	12,264,386	185,420,439
	76,795	(78,854,162)
	-	8,255
	-	(2,065,009)
	-	(2,056,754)
	76,795	(80,910,916)
	1,088,341	180,697,655
\$	1,165,136	\$ 99,786,739

This page left blank intentionally.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (80,910,916)</b>
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the current year capital asset additions increases government-wide net position.	85,926,628
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(4,559,711)
Current year long-term debt principal payments on bonds payable are expenditures in the fund financial statements, but are shown as reductions of long-term debt in the government-wide financial statements.	4,770,000
The current year decrease in accreted interest payable on capital appreciation bonds is not recorded in the fund financial statements. The net effect of the current year's change in accreted interest payable on capital appreciation bonds is to decrease government-wide net position.	131,293
The current year increase in vested sick leave benefits payable is not recorded in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(91,580)
Current year amortization of the premium on bonds payable is not recorded in the fund financial statements, but is shown as a decrease in long-term debt in the government-wide financial statements.	1,605,345
Current year amortization of the deferred charge on bond refundings is not reflected in the fund financial statements, but is shown as a reduction of the deferred charge in the government-wide financial statements.	(262,431)
Interest is accrued on outstanding debt in the government-wide financial statements, but interest is expended as due in the fund financial statements.	102,569
Revenues from property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible amounts in the government-wide financial statements.	139,953
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS contributions made after the measurement date of 8/31/2019 caused the change in the ending net position to increase by \$71,095. These contributions were replaced with the District's adjustment to pension expense for the year of \$3,714,509, which caused a decrease in the change in net position. The net effect of these is to decrease the change in net position by \$3,643,414.	(3,643,414)

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

---

EXHIBIT C-4

The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS OPEB contributions made after the measurement date of 8/31/2019 but during the current fiscal year caused the ending net position to increase in the amount of \$10,316. These contributions were replaced with the District's OPEB expense for the year of \$610,844 which caused a decrease in the change in net position. The net effect of these is to decrease the change in net position by \$600,528.	(600,528)
--	-----------

The payment to the escrow agent for the early defeasance of bonds is an other use in the fund financial statements, but is a decrease in long-term debt in the government-wide financial statements.	2,065,009
--	-----------

<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ 4,672,217</u></u>
--	----------------------------

SHERMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2020

	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -	\$ 52,431
Investments - Current	35,503	-
Due from Other Funds	-	44,697
Total Assets	<u>35,503</u>	<u>\$ 97,128</u>
<b>LIABILITIES</b>		
Accounts Payable	-	\$ 11,390
Due to Other Funds	1,300	-
Due to Student Groups	-	85,738
Total Liabilities	<u>1,300</u>	<u>\$ 97,128</u>
<b>NET POSITION</b>		
Unrestricted Net Position	<u>34,203</u>	
Total Net Position	<u>\$ 34,203</u>	

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



This page left blank intentionally.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Sherman Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**A. REPORTING ENTITY**

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees is elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District'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 District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Sherman Independent School District has no component units.

**B. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the District. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. 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. The District had no business-type activities.

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**Fund Financial Statements:**

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused debt service fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Private Purpose Trust Funds** - The District accounts for donations which have the stipulation that the funds be used for a specific purpose in this fund. The District's Private Purpose Trust Funds are scholarship funds. These funds are not budgeted.
3. **Agency Funds** - These custodial funds are used to account for activities of student groups. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

**C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The government-wide statements and fiduciary fund financial statements (except agency 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 net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A 60 day availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care 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 net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

The revenues susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

**D. BUDGETARY CONTROL**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to June 20 of the preceding fiscal year for the subsequent fiscal period beginning July 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund and the Food Service Fund. The other special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

June 30, 2020 <u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 809,969
Nonappropriated Budget Funds	<u>355,167</u>
All Special Revenue Funds	<u>\$1,165,136</u>

**E. ENCUMBRANCE ACCOUNTING**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The District had no material encumbrances outstanding at June 30, 2020.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**F. INVENTORIES AND PREPAID ITEMS**

The consumption method is used to account for inventories of paper and other supplies. Under this method, these items are charged to expenditures when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**G. INTERFUND RECEIVABLES AND PAYABLES**

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account.

**H. CAPITAL ASSETS**

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. 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.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	15-50 Years
Vehicles	7-12 Years
Equipment	5-12 Years

**I. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

*A deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

**Deferred outflows of resources for refunding** - Reported in the government-wide statement of net position, the deferred charge on bond refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities for the deferred charge on bond refundings at June 30, 2020 was \$64,260.

**Deferred outflows of resources for pensions** - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently approximately 6.7 years.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The amount of deferred outflows reported in the governmental activities for deferred pension expenses at June 30, 2020 was \$14,650,916.

**Deferred outflows of resources for OPEB** - Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of differences between expected and actual investment earnings and changes in proportionate share. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The other OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan which is currently approximately 8.6 years. The amount of deferred outflows reported for deferred OPEB expense at June 30, 2020 was \$7,596,805.

*A deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

**Deferred inflows of resources for unavailable revenues** - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported property taxes that are unavailable as deferred inflows of resources in the fund financial statements. The amount of deferred inflows of resources reported in the governmental funds at June 30, 2020 was \$1,803,320.

**Deferred inflows of resources for pensions** - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments and other actuarial and other assumption differences. These amounts will be amortized over a closed 5 year period. In fiscal year 2020, the District reported deferred inflows of resources for pensions in the governmental activities in the amount of \$6,189,667.

**Deferred inflows of resources for OPEB** - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience and from changes in assumptions. These amounts will be amortized over the average expected remaining service life (AERSL) of all members (8.6 years for the 2019 measurement year). In fiscal year 2020, the District reported deferred inflows of resources for OPEB in the governmental activities in the amount of \$15,219,506.

**J. CASH EQUIVALENTS**

Investments are considered to be cash equivalents if they are highly liquid and have a maturity of three months or less when purchased.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**K. NET POSITION**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciations, 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**L. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are recorded and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

**M. VACATION AND SICK LEAVE**

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated and may be paid to retiring employees. See Note 5.

**N. RISK MANAGEMENT**

The District 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. During fiscal 2020, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**O. USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 2. FUND BALANCES**

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified inventories and prepaid items as being nonspendable as these items are not expected to be converted to cash.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects resources are restricted for future capital outlay. The fund balance of certain grant programs is restricted for those grant programs.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. The Board of Trustees have committed resources as of June 30, 2020 for campus activities.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has not assigned any fund balance as of June 30, 2020.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance of the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The details of the fund balances are included in the Governmental Funds Balance Sheet and are described below:

**General Fund**

The General Fund has unassigned fund balance of \$28,389,316 at June 30, 2020. Inventories of \$214,325 and prepaid items of \$168,321 are considered nonspendable fund balance.

**Debt Service Fund**

The Debt Service Fund has restricted funds of \$12,599,763 at June 30, 2020 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

**Capital Projects Fund**

The Capital Projects Fund has restricted funds of \$57,249,878 at June 30, 2020 consisting primarily of remaining bond issuance proceeds that are restricted for construction and other capital outlay expenditures.

**Other Funds**

The fund balance of \$355,167 of the Campus Activity Fund (a special revenue fund) is committed due to Board policy committing those funds to campus activities. The Special Revenue Funds include \$809,969 of fund balance restricted for Federal or State grant programs.

**NOTE 3. DEPOSITS AND INVESTMENTS**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

**1. Cash Deposits:**

At June 30, 2020, the carrying amount of the District's deposit checking accounts and interest-bearing demand accounts was \$82,384,263 and the bank balance was \$84,465,099. The District's cash deposits at June 30, 2020 were entirely covered by FDIC insurance, by pledged collateral or by letters of credit held by the District's agent bank in the District's name. During the year ended June 30, 2020, District deposits were not fully collateralized for three days during the year.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2020, the District's cash deposits totaled \$84,465,099. This entire amount was either collateralized with securities held by the District's agent, letters of credit or covered by FDIC insurance. Thus, the District's deposits are not exposed to custodial credit risk as of June 30, 2020. There were three days during the fiscal year ended June 30, 2020 when the District's cash deposits were not entirely covered by FDIC insurance, by pledged collateral or by letters of credit.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2020, the District held investments in six public funds investment pools. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for all investment pools at year-end was AAAm (Standard & Poor's).
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for each investment pool is less than 90 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2020, the District was not exposed to foreign currency risk.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

- f. **Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. The District's investments in public funds investment pools are not subject to the concentration risk. At June 30, 2020, the District's investments were not exposed to concentration of credit risk.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The District's cash and investments at June 30, 2020, are shown below:

	<b>Fair Market Value</b>	<b>Weighted Average Maturity (Days)</b>
<b>Governmental Activities</b>		
Cash and deposits	\$ 82,331,832	N/A
<i>Investments</i>		
Local Government Investments Pools		
LOGIC	716,148	48
Lone Star	17,866,516	35
TexasDaily	95,249	57
TexPool	5,192,287	33
TexSTAR	283	29
Texas CLASS	586,355	51
CD's		
TexasTERM CD's	992,352	364
Independent Bank	255,330	365
First United Bank	252,227	420
<b>Total Investments</b>	<u>25,956,747</u>	
<b>Total Governmental Activities</b>	<u>108,288,579</u>	
<b>Fiduciary Funds</b>		
Cash and Deposits	52,431	N/A
CD-Bank of Texas	35,503	365
<b>Total Fiduciary Funds</b>	<u>87,934</u>	
<b>Total</b>	<u><u>\$ 108,376,513</u></u>	

The amount of interest earned on the District's cash and investments for the fiscal year ended June 30, 2020, was \$2,911,613.

#### Fair Value Measurements

The District categorizes its fair value measurements with 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 active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b><u>Investments by Fair Value level:</u></b>	<b><u>Balance at 6/30/20</u></b>			
Certificates of Deposit	<u>\$1,535,412</u>	<u>\$ -</u>	<u>\$1,535,412</u>	<u>\$ -</u>

The fair value of the certificates of deposit at June 30, 2020 was determined based on level 2 inputs. The District estimates the fair value of these investments using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The District's investments in Pool's (statewide 2a7-like external investment pools) are not required to be measured at fair value but are measured at amortized cost.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance <u>July 1</u>	Additions/ <u>Completions</u>	Retirement/ <u>Adjustments</u>	Balance <u>June 30</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 6,164,564	\$ -	\$ -	\$ 6,164,564
Construction in Progress	<u>26,556,812</u>	<u>84,797,169</u>	<u>-</u>	<u>111,353,981</u>
Total Capital assets not being depreciated	<u>32,721,376</u>	<u>84,797,169</u>	<u>-</u>	<u>117,518,545</u>
Capital assets, being depreciated				
Buildings and Improvements	131,559,170	445,938	-	132,005,108
Furniture and Equipment	<u>25,404,128</u>	<u>683,521</u>	<u>-</u>	<u>26,087,649</u>
Total capital assets being depreciated	<u>156,963,298</u>	<u>1,129,459</u>	<u>-</u>	<u>158,092,757</u>
Less accumulated depreciation for:				
Buildings and Improvements	(49,394,634)	(2,680,856)	-	(52,075,490)
Furniture and Equipment	<u>(17,610,900)</u>	<u>(1,878,855)</u>	<u>-</u>	<u>(19,489,755)</u>
Total accumulated depreciation	<u>(67,005,534)</u>	<u>(4,559,711)</u>	<u>-</u>	<u>(71,565,245)</u>
Total capital assets, being depreciated, net	<u>89,957,764</u>	<u>(3,430,252)</u>	<u>-</u>	<u>86,527,512</u>
Governmental activities capital assets, net	<u>\$122,679,140</u>	<u>\$ 81,366,917</u>	<u>\$ -</u>	<u>\$204,046,057</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$1,523,319
Instructional Resources & Media Services	258,443
Instructional Leadership	21,491
School Leadership	102,291
Guidance, Counseling & Eval.	35,421
Health Services	7,747
Student (Pupil) Transportation	306,875
Food Services	152,479
Extracurricular Activities	157,330
General Administration	89,240
Plant Maintenance and Operations	427,388
Data Processing Services	<u>1,477,687</u>
Total depreciation expense-Governmental activities	<u>\$4,559,711</u>

**NOTE 5. LONG-TERM LIABILITIES**

Long-term liabilities includes par bonds, capital appreciation (deep discount) serial bonds, vested sick leave benefits payable, and the District's net pension liability. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

The following schedule indicates the changes in long-term debt during the year ended June 30, 2020:

	<u>Balance</u> <u>7/1/2019</u>	<u>Additions</u>	<u>Retired/ Refunded</u>	<u>Balance</u> <u>6/30/2020</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable					
Carrying value	\$ 214,515,000	\$ -	\$ 6,820,000	\$ 207,695,000	\$ 2,895,000
Unamortized premium (discount)	<u>28,073,908</u>	<u>-</u>	<u>1,605,345</u>	<u>26,468,563</u>	<u>1,897,323</u>
Total bonds payable	242,588,908	-	8,425,345	234,163,563	4,792,323
Accreted interest payable	9,091,923	728,797	860,090	8,960,630	2,575,865
Vested sick leave benefits	470,682	140,684	49,104	562,262	91,580
Net pension liability	23,035,540	2,117,709	-	25,153,249	-
Net other post-employment benefits (OPEB)	<u>29,116,913</u>	<u>1,862,324</u>	<u>-</u>	<u>30,979,237</u>	<u>-</u>
	<u>\$ 304,303,966</u>	<u>\$ 4,849,514</u>	<u>\$ 9,334,539</u>	<u>\$ 299,818,941</u>	<u>\$ 7,459,768</u>

Current requirements for principal and interest expenditures (bonds payables and accreted interest payable) are accounted for in the Debt Service Fund. Total interest cost incurred by the District during the year ended June 30, 2020 was \$8,649,024; this entire amount was charged to expense in the statement of activities. Liquidations of vested sick leave benefits are accounted for in the General Fund.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**BONDS PAYABLE**

The following is a summary of the District's bonds outstanding as of June 30, 2020:

Issue	Interest Rates	Final Maturity	Amounts Original Issue	Amounts Outstanding July 1, 2019	Issued	Retired/ Refunded	Amounts Outstanding June 30, 2020
School Building and Refunding Bonds, Series 1995A	5.75-7.90%	2022	\$24,395,012	\$ 280,000	\$ -	\$ 75,000	\$ 205,000
Refunding Bonds, Series 1998	3.8-5%	2025	11,696,357	2,320,000	-	-	2,320,000
Refunding Bonds, Series 2012	2-3.25%	2030	9,629,732	8,215,000	-	85,000	8,130,000
Refunding Bonds, Series 2013	2-5%	2032	37,610,000	27,715,000	-	2,795,000	24,920,000
Refunding Bonds, Series 2014	2-5%	2032	15,760,000	9,365,000	-	785,000	8,580,000
Refunding Bonds, Series 2015	2-5%	2032	9,205,000	6,430,000	-	1,030,000	5,400,000
School Building Bonds, Series 2018-A	3-5%	2045	121,260,000	121,260,000	-	-	121,260,000
School Building Bonds, Series 2018-B	3%	2049	39,675,000	38,930,000	-	2,050,000	36,880,000
				<u>\$214,515,000</u>	<u>\$ -</u>	<u>\$6,820,000</u>	<u>\$ 207,695,000</u>

**ADVANCE REFUNDINGS**

In January 2020, the District advance refunded \$2,050,000 (par value) of bonds by paying \$2,065,009 into an irrevocable escrow account from existing District funds. No refunding bonds were issued. All future payments on the refunded bonds will be paid from the escrow account. The refunded bonds will be redeemed in August 2020, the call date of the bonds.

At June 30, 2020, \$2,795,000 of defeased bonds remained outstanding.

**ACCREDITED INTEREST PAYABLE**

The Premium Capital Appreciation Bonds (Series 1995A, 1998, and 2012) discussed on the previous pages are zero-coupon bonds with deep discounts. The difference between the initial price of the bonds and their maturity value represents interest. This interest is accreted over the term of the bonds and is recorded as a liability in the District's financial statements. The following schedule summarizes the changes in accreted interest payable during the year ended June 30, 2020.

	Balance July 1, 2019	Additions	Retired	Balance June 30, 2020
Accreted Interest Payable	<u>\$ 9,091,923</u>	<u>\$ 728,797</u>	<u>\$ 860,090</u>	<u>\$ 8,960,630</u>

Accreted interest payable of \$860,090 was paid by the Debt Service Fund during the year ended June 30, 2020.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**DEBT SERVICE REQUIREMENTS**

Bonds payable debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2021	\$ 2,895,000	\$ 11,975,700	\$ 14,870,700
2022	3,285,000	11,583,900	14,868,900
2023	3,400,000	11,556,650	14,956,650
2024	3,875,000	11,508,800	15,383,800
2025	7,290,000	8,584,950	15,874,950
2026-2030	43,980,000	38,521,425	82,501,425
2031-2035	37,115,000	27,468,250	64,583,250
2036-2040	34,190,000	19,527,750	53,717,750
2041-2045	34,785,000	10,057,500	44,842,500
2046-2049	<u>36,880,000</u>	<u>2,724,750</u>	<u>39,604,750</u>
	<u>\$207,695,000</u>	<u>\$153,509,675</u>	<u>\$361,204,675</u>

**ACCUMULATED UNPAID VACATION AND SICK-LEAVE BENEFITS**

Employment contracts specify the days to be worked for all District employees except for mechanics, maintenance and custodial employees. Annual compensation is deemed to be directly attributable to the days specified in the contract. Mechanics, maintenance and custodial employees all begin their vacation on July 1 of each year. If employed on or before November 30 of the previous year, the employees are entitled to two weeks of vacation, or one week of vacation if employed between November 30 and February 28. As of June 30, 2020, the accumulated unpaid vacation leave of the District is considered to be immaterial.

Teachers and administrators of the District annually accrue five days of sick-leave benefits provided by the State and 10 days provided by the District. Accumulation and carryover is unlimited by the State but limited to 100 days by the District. At retirement, State-mandated days lapse while unused District days become 25% vested and payable at the most recent rate of pay.

Paraprofessional and auxiliary employees annually accrue 5 days of sick-leave benefits provided by the District and 5 days provided by the State. Accumulation and carryover of District provided days is limited to 100 days that, upon retirement, become 25% vested and payable at the most recent rate of pay.

At June 30, 2020, the District estimates that sick-leave benefits of \$562,262 are vested for employees eligible to retire. This amount has been recorded as a liability in the District's government-wide financial statements.

**NOTE 6. DEFERRED CHARGES ON BOND REFUNDINGS**

The District's deferred charges on bond refundings are as follows:

Balance – June 30, 2019	\$ 311,682
Current year loss/(gain) on bond refunding	15,009
Current period amortization	<u>(262,431)</u>
Balance – June 30, 2020	<u>\$ 64,260</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 7. OPERATING LEASES**

Commitments under operating lease (noncapitalized) agreements for equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of June 30, 2020. The imputed interest on the leases is not readily determinable.

**NOTE 8. PROPERTY TAXES**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2019-20 fiscal period was based was \$3,675,348,475. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the period ended June 30, 2020, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.0683 and \$0.479 per \$100 valuation, respectively, for a total of \$1.5473 per \$ 100 valuation.

Current tax collections for the period ended June 30, 2020 were 97.8 % of the June 30, 2020 adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2020, property taxes and penalty and interest receivable, net of estimated uncollectible taxes, totaled \$1,294,008 and \$509,312 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected.

**NOTE 9. INTERFUND BALANCES AND ACTIVITIES**

Interfund receivables and payables at June 30, 2020 represented short-term advances between funds. These amounts are expected to be repaid in less than one year from June 30, 2020.

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Governmental Funds:		
General Fund:		
Debt Service Fund	\$ 2,404,021	\$ 2,404,021
Capital Projects Fund	7,938,988	7,938,988
Non-Major Special Revenue Fund	1,935,956	1,669,130
Fiduciary Funds	<u>1,300</u>	<u>44,697</u>
Total Major Governmental Funds	<u>12,280,265</u>	<u>12,056,836</u>
Nonmajor Governmental Funds:		
Special Revenue Funds:		
General Fund	<u>1,669,130</u>	<u>1,935,956</u>
Total Nonmajor Governmental Funds	<u>1,669,130</u>	<u>1,935,956</u>
Fiduciary Funds:		
General Fund	<u>44,697</u>	<u>1,300</u>
Total	<u>\$13,994,092</u>	<u>\$13,994,092</u>



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

There were no transfers between funds during the year ended June 30, 2020.

**NOTE 10. DEFINED BENEFIT PENSION PLAN**

**Plan Description.** Sherman Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://trs.texas.gov/trs%20Documents/cafr2019.pdf>, selecting *About TRS* then *Publications* then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

In May, 2019, the 86<sup>th</sup> Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13<sup>th</sup> check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86<sup>th</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8/7.5%
Employer	6.8%	6.8/7.5%
Sherman ISD FY2020 Employer Contributions	\$	1,668,719
Sherman ISD FY2020 Member Contributions	\$	4,075,994
Sherman ISD FY2020 NECE On-Behalf Contributions	\$	2,896,356

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including the TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. The contribution rate called the Public Education Employer Contribution will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**Actuarial Assumptions.** The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term expected Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2019	2.63%
Inflation	2.30%
Salary Increases Including Inflation	3.05% to 9.05%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

**Discount Rate.** A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates 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. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

Asset Class	FY2019 Target Allocation <sup>1</sup>	New Target Allocation <sup>2</sup>	Long-Term Expected Geometric Real Rate of Return <sup>3</sup>
<b>Global Equity</b>			
U.S.	18%	18%	6.4%
Non-U.S. Developed	13%	13%	6.3%
Emerging Markets	9%	9%	7.3%
Directional Hedge Funds	4%	-	-
Private Equity	13%	14%	8.4%
<b>Stable Value</b>			
U.S. Treasuries	11%	16%	3.1%
Absolute Return	-	-	-
Stable Value Hedge Funds	4%	5%	4.5%
<b>Real Return</b>			
Global Inflation Linked Bonds <sup>4</sup>	3%	-	-
Real Estate	14%	15%	8.5%
Energy, Natural Resources & Infrastructure	5%	6%	7.3%
Commodities	-	-	-
<b>Risk Parity</b>			
Risk Parity	5%	8%	5.8%/6.5% <sup>5</sup>
<b>Leverage</b>			
Cash	1%	2%	2.5%
Asset Allocation Leverage	-	-6%	2.7%
<b>Total</b>	<u>100%</u>	<u>100%</u>	<u>7.23%</u>

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Sherman ISD's proportionate share of the net pension liability:	\$38,664,195	\$25,153,249	\$14,206,771

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2020, Sherman Independent School District reported a liability of \$25,153,249 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Sherman Independent School District. The amount recognized by Sherman Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Sherman Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$25,153,249
State's proportionate share that is associated with the District	<u>37,058,375</u>
Total	<u>\$62,211,624</u>

<sup>1</sup> Target allocations are based on the Strategic Asset Allocation as of FY2019

<sup>2</sup> New allocations are based on the Strategic Asset Allocation to be implemented FY2020

<sup>3</sup> 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

<sup>4</sup> New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds

<sup>5</sup> 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0483873%, an increase of 15.6% from its proportionate share of 0.0418505% at August 31, 2018.

**Changes Since the Prior Actuarial Valuation** – The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas Legislature approved funding for a 13<sup>th</sup> check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

For the year ended June 30, 2020, Sherman Independent School District recognized pension expense of \$2,896,356 and revenue of \$2,896,356 for support provided by the State.

At June 30, 2020, Sherman Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (The amounts shown below will be the cumulative layers from the current and prior years combined.):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 105,666	\$ 873,361
Changes in actuarial assumptions	7,803,773	3,224,888
Difference between projected and actual investment earnings	1,512,221	1,259,653
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,829,149	831,765
Contributions paid to TRS subsequent to the measurement date	1,400,107	-
Total	\$14,650,916	\$6,189,667

\$1,400,107 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2021	\$ 1,700,012
2022	1,411,801
2023	1,728,778
2024	1,625,252
2025	685,996
Thereafter	(90,697)

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 11. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

**Plan Description.** The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS- Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

**OPEB Plan Fiduciary Net Position.** Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**Benefits Provided.** TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for retirees are reflected in the following table:

TRS-Care Monthly for Retirees		
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

\* or surviving spouse

**Contributions.** Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
 Sherman ISD FY20 Employer Contributions	 \$447,466	
Sherman ISD FY20 Member Contributions	\$344,077	
Sherman ISD FY20 NECE On-behalf Contributions	\$611,236	

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to, regardless of whether or not they participate in the TRS Care OPEB program. When hiring a TRS retiree, employers are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$73.6 million in fiscal year 2019.

**Actuarial Assumptions.** The total OPEB liability in the August 31, 2018 was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions.

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability	

**Additional Actuarial Methods and Assumptions:**

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63%
Aging Factors	Based on specific plan experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Projected Salary Increases	3.05% to 9.05%, including inflation
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% participation after age 65
Ad hoc post-employment benefit changes	None

The impact of the Cadillac Tax that is returning in fiscal year 2023, has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.30 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis point addition to the long-term trend rate assumption.

**Discount Rate.** A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (1.63%)	Current Single Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
District's proportionate share of the Net OPEB Liability:	\$37,401,877	\$30,979,237	\$25,954,794

**Healthcare Cost Trend Rates Sensitivity Analysis** - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the OPEB liability would be if it were calculated using a trend rate that is one-percentage lower or one-percentage point higher than the assumed healthcare cost trend rate of 8.5%.

	1% Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1% Increase (9.5%)
District's proportionate share of the Net OPEB Liability:	\$25,271,778	\$30,979,237	\$38,624,617

**OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At June 30, 2020, the District reported a liability of \$30,979,237 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District.

The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective Net OPEB Liability	\$30,979,237
State's proportionate share that is associated with the District	<u>41,164,478</u>
Total	<u>\$72,143,715</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The Net OPEB Liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective Net OPEB Liability was 0.0655074%, an increase of 12.3% compared to the August 31, 2018 proportionate share of 0.0583144%.

**Changes Since the Prior Actuarial Valuation** – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of the pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while activity employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended June 30, 2020, the District recognized OPEB expense of \$611,236 and revenue of \$611,236 for support provided by the State.

At June 30, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$1,519,795	\$ 5,069,424
Changes in actuarial assumptions	1,720,655	8,332,655
Difference between projected and actual investment earnings	4,020	678
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,980,396	1,816,749
Contributions paid to TRS subsequent to the measurement date	371,939	-
Total	\$7,596,805	\$15,219,506



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

The net amounts of the employer's balance of deferred outflows and inflows of resources (not including the deferred contribution paid subsequent to the measurement date) related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	OPEB Expense Amount
2021	\$ (1,471,991)
2022	(1,471,991)
2023	(1,473,073)
2024	(1,473,962)
2025	(1,473,522)
Thereafter	(630,371)

**NOTE 12. MEDICARE PART D**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended June 30, 2020, 2019 and 2018, the subsidy payments received by TRS-Care on behalf of the District were \$226,696, \$171,577 and \$141,690, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

**NOTE 13. HEALTH CARE**

During the period ended June 30, 2020, employees of Sherman Independent School District were covered by a health insurance plan (the Plan). The District contributed \$325 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan.

**NOTE 14. WORKERS COMPENSATION**

The District participates in the Texas Educational Insurance Association Workers Compensation Fund. The District was fully insured under a guaranteed cost contract for the 19-20 fiscal period.

**NOTE 15. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation, Per Capita, Existing Debt Allotment, and Instruction Facilities Allotment Programs. Amounts due from federal and state governments in the governmental funds as of June 30, 2020, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

Fund	State Entitlements	Federal Government	Local Governments	Total
General	\$7,221,397	\$ -	\$75,853	\$7,297,250
Special Revenue	488,441	2,094,088	-	2,582,529
Debt Service	-	-	-	-
Total	<u>\$7,709,838</u>	<u>\$2,094,088</u>	<u>\$75,853</u>	<u>\$9,879,779</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 16. LITIGATION AND CONTINGENCIES**

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 17. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

During the current year, revenues from local and intermediate sources in the fund-basis financial statements consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 37,227,627	\$ -	\$ 16,655,801	\$ -	\$ 53,883,428
Food Sales	-	474,399	-	-	474,399
Investment Income	266,080	26,367	211,115	2,408,051	2,911,613
Penalties, interest and other tax related income	256,569	-	102,672	-	359,241
Co-curricular student activities	118,408	371,440	-	-	489,848
Other	309,275	632,901	-	-	942,176
Total	<u>\$ 38,177,959</u>	<u>\$ 1,505,107</u>	<u>\$ 16,969,588</u>	<u>\$ 2,408,051</u>	<u>\$ 59,060,705</u>

**NOTE 18. GENERAL FUND FEDERAL SOURCE REVENUES**

The following federal revenue sources are reported in the District's general fund:

Program or Source	CFDA #	Amount
Medicaid Administrative Claiming	93.778	\$ 41,499
SHARS	N/A	<u>1,102,003</u>
		<u>\$1,143,502</u>

**NOTE 19. UNEARNED REVENUE**

Unearned revenue at June 30, 2020 consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Student Account Balances	\$ -	\$ 44,301	\$ -	\$ 44,301
State & Federal Grant Funds	-	389,052	-	389,052
Local Grant Funds	-	344,354	-	344,354
	<u>\$ -</u>	<u>\$777,707</u>	<u>\$ -</u>	<u>\$777,707</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 20. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for certain Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in two functional categories in the General Fund, one functional category in the Child Nutrition Fund, and one functional category in the Debt Service Fund for the year ended June 30, 2020.

**NOTE 21. CONSTRUCTION COMMITMENTS**

As of June 30, 2020, the District had entered into contracts for various construction projects totaling \$139.4 million. At June 30, 2020, there was \$38.0 million remaining costs under these contracts. These projects are to be paid from the Capital Projects Fund.

**NOTE 22. RISKS AND UNCERTAINTIES**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State in response to the Pandemic, which disaster declaration he has subsequently extended. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a series of executive orders relating to COVID-19 preparedness and mitigation. Under Executive Order GA-26, public schools, which ceased in-person instruction from the middle of March to the end of May and transitioned totally to remote instruction, resumed operations in the summer under protocols outlined in guidance from the TEA.

TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District has developed remote instructional resources for its students and has begun delivering remote instruction in conjunction with in-person instruction. Therefore, the District does not anticipate a reduction in State funding as a result of the school closures at this time.

The District continues to monitor the spread of COVID-19 and is working with local, State and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The District's bonded debt is secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

This page left blank intentionally.

## REQUIRED SUPPLEMENTARY INFORMATION

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 38,665,780	\$ 38,365,305	\$ 38,177,959	\$ (187,346)
5800 State Program Revenues	33,042,695	36,246,658	35,358,569	(888,089)
5900 Federal Program Revenues	1,000,000	1,000,000	1,143,502	143,502
5020 Total Revenues	72,708,475	75,611,963	74,680,030	(931,933)
EXPENDITURES:				
Current:				
0011 Instruction	43,624,971	44,417,495	41,206,785	3,210,710
0012 Instructional Resources and Media Services	1,009,255	1,012,090	978,859	33,231
0013 Curriculum and Instructional Staff Development	908,148	865,961	852,606	13,355
0021 Instructional Leadership	1,228,321	1,225,461	1,183,646	41,815
0023 School Leadership	4,298,734	4,399,172	4,186,295	212,877
0031 Guidance, Counseling, and Evaluation Services	2,673,359	2,873,359	2,745,268	128,091
0033 Health Services	815,118	865,118	849,335	15,783
0034 Student (Pupil) Transportation	2,292,514	2,542,514	2,434,793	107,721
0036 Extracurricular Activities	1,825,968	1,692,718	1,702,494	(9,776)
0041 General Administration	2,607,302	2,605,802	2,460,099	145,703
0051 Facilities Maintenance and Operations	7,066,282	8,166,282	8,052,059	114,223
0052 Security and Monitoring Services	594,752	419,752	395,551	24,201
0053 Data Processing Services	1,772,474	1,872,474	1,875,448	(2,974)
0061 Community Services	3,000	3,000	-	3,000
Intergovernmental:				
0099 Other Intergovernmental Charges	843,000	1,222,000	1,221,244	756
6030 Total Expenditures	71,563,198	74,183,198	70,144,482	4,038,716
1100 Excess of Revenues Over Expenditures	1,145,277	1,428,765	4,535,548	3,106,783
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	8,255	8,255
1200 Net Change in Fund Balances	1,145,277	1,428,765	4,543,803	3,115,038
0100 Fund Balance - July 1 (Beginning)	24,228,159	24,228,159	24,228,159	-
3000 Fund Balance - June 30 (Ending)	\$ 25,373,436	\$ 25,656,924	\$ 28,771,962	\$ 3,115,038

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGET INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2020

**A. Budgets and Budgetary Accounting**

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining Special Revenue Funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to Federal, State and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended June 30, 2020. During the year ended June 30, 2020, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u><b>General Fund</b></u>
Amendments Approved	\$2,620,000

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principals and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by June 30, 2019. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED JUNE 30, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Pension Liability (Asset)	0.0483873%	0.0418505%	0.0452307%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 25,153,249	\$ 23,035,540	\$ 14,462,328
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	37,058,375	34,797,984	21,407,421
Total	<u>\$ 62,211,624</u>	<u>\$ 57,833,524</u>	<u>\$ 35,869,749</u>
District's Covered Payroll	\$ 49,600,611	\$ 44,238,339	\$ 45,296,346
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	50.71%	52.07%	31.93%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.24%	73.74%	82.17%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

<u>FY 2017</u>		<u>FY 2016</u>		<u>FY 2015</u>	
<u>Plan Year 2016</u>		<u>Plan Year 2015</u>		<u>Plan Year 2014</u>	
0.0417648%		0.04348929%		0.0292032%	
\$	15,782,292	\$	15,372,853	\$	7,800,579
25,489,636		24,150,807		20,857,908	
\$	41,271,928	\$	39,523,660	\$	28,658,487
\$	42,125,583	\$	40,456,183	\$	39,293,878
37.46%		38.00%		19.85%	
78.00%		78.43%		83.25%	

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 1,668,719	\$ 1,589,512	\$ 1,390,560
Contribution in Relation to the Contractually Required Contribution	(1,668,719)	(1,589,512)	(1,390,560)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 52,934,993	\$ 49,043,801	\$ 43,723,074
Contributions as a Percentage of Covered Payroll	3.15%	3.24%	3.18%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

	2017	2016	2015
\$	1,450,907	\$ 1,323,576	\$ 1,190,741
	(1,450,907)	(1,323,576)	(1,190,741)
\$	-	\$ -	\$ -
\$	44,668,788	\$ 41,873,622	\$ 40,308,748
	3.25%	3.16%	2.95%

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED JUNE 30, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.0655074%	0.0583144%	0.062862%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 30,979,237	\$ 29,116,913	\$ 27,003,071
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	41,164,478	36,763,825	33,550,536
Total	<u>\$ 72,143,715</u>	<u>\$ 65,880,738</u>	<u>\$ 60,553,607</u>
District's Covered Payroll	\$ 49,600,611	\$ 44,238,339	\$ 45,296,346
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	62.46%	65.82%	59.61%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.66%	1.57%	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2020 are for the measurement date of August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 447,466	\$ 434,490	\$ 357,584
Contribution in Relation to the Contractually Required Contribution	(447,466)	(434,490)	(357,584)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 52,934,993	\$ 49,043,801	\$ 43,723,074
Contributions as a Percentage of Covered Payroll	0.85%	0.89%	0.82%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2020

PENSION LIABILITY:

*Changes of benefit terms:*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

*Changes of assumptions:*

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas Legislature approved funding for a 13<sup>th</sup> check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

OPEB LIABILITY:

*Changes of benefit terms:*

There were no changes in benefit terms since the prior measurement date.

*Changes of assumptions:*

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of the pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while activity employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.

## COMBINING SCHEDULES

SHERMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2020

Data Control Codes		205 Head Start	206 ESEA Title X, Pt.C Homeless	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from Other Governments	129,434	3,848	205,367	198,156
1260	Due from Other Funds	-	-	-	-
1000	Total Assets	<u>\$ 129,434</u>	<u>\$ 3,848</u>	<u>\$ 205,367</u>	<u>\$ 198,156</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ 3,842	\$ 532	\$ 21,531
2150	Payroll Deductions and Withholdings Payable	5,157	-	36,462	3,327
2160	Accrued Wages Payable	13,467	-	121,368	9,679
2170	Due to Other Funds	110,810	6	47,005	163,619
2300	Unearned Revenue	-	-	-	-
2000	Total Liabilities	<u>129,434</u>	<u>3,848</u>	<u>205,367</u>	<u>198,156</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 129,434</u>	<u>\$ 3,848</u>	<u>\$ 205,367</u>	<u>\$ 198,156</u>

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	266 ESSER -School Emergency Relief	286 Indian Education Grant	288 ESEA IV, A Student Support
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,299	158,057	7,260	647	91	1,342,371	40,414	1,144
-	1,144,183	-	-	-	-	-	-
<u>\$ 7,299</u>	<u>\$ 1,302,240</u>	<u>\$ 7,260</u>	<u>\$ 647</u>	<u>\$ 91</u>	<u>\$ 1,342,371</u>	<u>\$ 40,414</u>	<u>\$ 1,144</u>
\$ 972	\$ 246,913	\$ -	\$ 390	\$ -	\$ -	\$ 4,194	\$ 200
651	85,664	-	-	-	-	-	-
1,587	115,393	-	-	-	-	-	-
4,089	-	7,260	257	91	1,342,371	36,220	944
-	44,301	-	-	-	-	-	-
<u>7,299</u>	<u>492,271</u>	<u>7,260</u>	<u>647</u>	<u>91</u>	<u>1,342,371</u>	<u>40,414</u>	<u>1,144</u>
-	809,969	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>809,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 7,299</u>	<u>\$ 1,302,240</u>	<u>\$ 7,260</u>	<u>\$ 647</u>	<u>\$ 91</u>	<u>\$ 1,342,371</u>	<u>\$ 40,414</u>	<u>\$ 1,144</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2020

Data Control Codes		289 Other Federal Special Revenue Funds	315 SSA IDEA, Part B Discretionary	385 Visually Impaired SSVI	397 Advanced Placement Incentives
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from Other Governments	-	-	945	-
1260	Due from Other Funds	36,123	-	-	3,716
1000	Total Assets	<u>\$ 36,123</u>	<u>\$ -</u>	<u>\$ 945</u>	<u>\$ 3,716</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2150	Payroll Deductions and Withholdings Payable	-	-	-	-
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	-	-	945	-
2300	Unearned Revenue	36,123	-	-	3,716
2000	Total Liabilities	<u>36,123</u>	<u>-</u>	<u>945</u>	<u>3,716</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 36,123</u>	<u>\$ -</u>	<u>\$ 945</u>	<u>\$ 3,716</u>

410 State Instructional Materials	429 Other State Special Revenue Funds	435 SSA Regional Day School - Deaf	459 Other SSA Special Revenue Funds	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 311,365	\$ -	\$ 311,365
133,699	-	14,320	88,640	-	250,837	2,582,529
-	38,767	307,337	-	46,627	92,377	1,669,130
<u>\$ 133,699</u>	<u>\$ 38,767</u>	<u>\$ 321,657</u>	<u>\$ 88,640</u>	<u>\$ 357,992</u>	<u>\$ 343,214</u>	<u>\$ 4,563,024</u>
\$ -	\$ -	\$ -	\$ -	\$ 2,825	\$ (1,140)	\$ 280,259
-	-	2,354	-	-	-	133,615
-	-	8,857	-	-	-	270,351
133,699	-	-	88,640	-	-	1,935,956
-	38,767	310,446	-	-	344,354	777,707
<u>133,699</u>	<u>38,767</u>	<u>321,657</u>	<u>88,640</u>	<u>2,825</u>	<u>343,214</u>	<u>3,397,888</u>
-	-	-	-	-	-	809,969
-	-	-	-	355,167	-	355,167
-	-	-	-	355,167	-	1,165,136
<u>\$ 133,699</u>	<u>\$ 38,767</u>	<u>\$ 321,657</u>	<u>\$ 88,640</u>	<u>\$ 357,992</u>	<u>\$ 343,214</u>	<u>\$ 4,563,024</u>



SHERMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	205 Head Start	206 ESEA Title X, Pt.C Homeless	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	345,658	29,245	1,904,855	1,263,851
5020 Total Revenues	345,658	29,245	1,904,855	1,263,851
EXPENDITURES:				
Current:				
0011 Instruction	344,960	25,803	1,418,754	194,987
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	207	-	464,731	611
0021 Instructional Leadership	-	1,442	-	-
0031 Guidance, Counseling, and Evaluation Services	-	-	2,817	1,068,253
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	2,000	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	491	-	18,553	-
6030 Total Expenditures	345,658	29,245	1,904,855	1,263,851
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	\$ -	\$ -	\$ -	\$ -

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	266 ESSER -School Emergency Relief	286 Indian Education Grant	288 ESEA IV, A Student Support
\$ -	\$ 500,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	20,656	-	-	-	-	-	-
18,724	4,145,397	80,984	173,814	29,896	1,342,371	69,560	48,205
18,724	4,666,819	80,984	173,814	29,896	1,342,371	69,560	48,205
18,724	-	74,864	79,030	15,848	1,342,371	69,560	48,205
-	-	-	-	-	-	-	-
-	-	6,120	69,596	14,048	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	4,562,741	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	25,188	-	-	-	-
-	194,188	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
18,724	4,756,929	80,984	173,814	29,896	1,342,371	69,560	48,205
-	(90,110)	-	-	-	-	-	-
-	900,079	-	-	-	-	-	-
\$ -	\$ 809,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SHERMAN INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	289 Other Federal Special Revenue Funds	315 SSA IDEA, Part B Discretionary	385 Visually Impaired SSVI	397 Advanced Placement Incentives
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	945	1,895
5900 Federal Program Revenues	-	4,800	-	-
5020 Total Revenues	-	4,800	945	1,895
EXPENDITURES:				
Current:				
0011 Instruction	-	4,800	945	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	1,895
0021 Instructional Leadership	-	-	-	-
0031 Guidance, Counseling, and Evaluation Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	-	4,800	945	1,895
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	\$ -	\$ -	\$ -	\$ -

410 State Instructional Materials	429 Other State Special Revenue Funds	435 SSA Regional Day School - Deaf	459 Other SSA Special Revenue Funds	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 11,700	\$ -	\$ 371,440	\$ 621,201	\$ 1,505,107
1,137,505	40,766	88,307	88,640	-	-	1,378,714
-	-	-	-	-	-	9,457,360
1,137,505	40,766	100,007	88,640	371,440	621,201	12,341,181
1,125,200	394	99,563	-	5,574	89,192	4,958,774
12,305	-	-	-	8,864	-	21,169
-	-	444	88,640	-	1,881	648,173
-	-	-	-	-	-	1,442
-	40,372	-	-	-	-	1,111,442
-	-	-	-	-	-	4,562,741
-	-	-	-	190,097	17,952	210,049
-	-	-	-	-	-	25,188
-	-	-	-	-	-	194,188
-	-	-	-	-	512,176	512,176
-	-	-	-	-	-	19,044
1,137,505	40,766	100,007	88,640	204,535	621,201	12,264,386
-	-	-	-	166,905	-	76,795
-	-	-	-	188,262	-	1,088,341
\$ -	\$ -	\$ -	\$ -	\$ 355,167	\$ -	\$ 1,165,136

This page left blank intentionally.

## REQUIRED TEA SCHEDULES



SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED JUNE 30, 2020

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2011 and prior years	Various	Various	\$ 2,319,163,627
2012	1.040000	0.400000	2,309,618,851
2013	1.040000	0.400000	2,341,187,284
2014	1.040000	0.400000	2,344,417,869
2015	1.040000	0.400000	2,673,585,734
2016	1.040000	0.400000	2,774,702,778
2017	1.170000	0.270000	2,916,815,258
2018	1.170000	0.027000	3,079,170,361
2019	1.170000	0.479000	3,251,306,477
2020 (School year under audit)	1.068300	0.479000	3,675,348,475
1000 TOTALS			

(10) Beginning Balance 7/1/2019	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2020
\$ 393,385	\$ -	\$ 7,050	\$ 2,711	\$ (98,833)	\$ 284,791
75,986	-	2,392	920	(12,491)	60,183
73,142	-	1,646	633	(14,349)	56,514
71,877	-	737	284	(7,208)	63,648
79,297	-	3,237	1,245	(8,224)	66,591
94,042	-	6,914	2,659	(10,959)	73,510
120,780	-	5,671	1,309	(16,910)	96,890
254,386	-	35,485	8,189	(56,655)	154,057
1,126,851	-	352,563	144,340	(163,747)	466,201
-	54,485,511	36,756,414	16,480,691	(42,090)	1,206,316
<u>\$ 2,289,746</u>	<u>\$ 54,485,511</u>	<u>\$ 37,172,109</u>	<u>\$ 16,642,981</u>	<u>\$ (431,466)</u>	<u>\$ 2,528,701</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 704,666	\$ 704,666	\$ 500,766	\$ (203,900)
5800 State Program Revenues	21,500	21,500	20,656	(844)
5900 Federal Program Revenues	3,706,366	3,706,366	4,145,397	439,031
5020 Total Revenues	4,432,532	4,432,532	4,666,819	234,287
EXPENDITURES:				
Current:				
0035 Food Services	3,888,192	4,134,204	4,562,741	(428,537)
0051 Facilities Maintenance and Operations	450,000	203,988	194,188	9,800
6030 Total Expenditures	4,338,192	4,338,192	4,756,929	(418,737)
1200 Net Change in Fund Balances	94,340	94,340	(90,110)	(184,450)
0100 Fund Balance - July 1 (Beginning)	900,079	900,079	900,079	-
3000 Fund Balance - June 30 (Ending)	\$ 994,419	\$ 994,419	\$ 809,969	\$ (184,450)

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 17,095,623	\$ 17,095,623	\$ 16,969,588	\$ (126,035)
5800 State Program Revenues	-	-	167,427	167,427
5020 Total Revenues	17,095,623	17,095,623	17,137,015	41,392
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	4,770,000	4,770,000	4,770,000	-
0072 Interest on Long-Term Debt	10,126,500	10,221,291	10,225,800	(4,509)
0073 Bond Issuance Cost and Fees	10,000	10,000	8,535	1,465
6030 Total Expenditures	14,906,500	15,001,291	15,004,335	(3,044)
1100 Excess of Revenues Over Expenditures	2,189,123	2,094,332	2,132,680	38,348
OTHER FINANCING SOURCES (USES):				
8949 Other (Uses)	-	(2,065,009)	(2,065,009)	-
1200 Net Change in Fund Balances	2,189,123	29,323	67,671	38,348
0100 Fund Balance - July 1 (Beginning)	12,532,092	12,532,092	12,532,092	-
3000 Fund Balance - June 30 (Ending)	\$ 14,721,215	\$ 12,561,415	\$ 12,599,763	\$ 38,348

This page left blank intentionally.

## FEDERAL AWARDS SECTION



This page left blank intentionally.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Sherman Independent School District  
Sherman, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sherman Independent School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Sherman Independent School District's basic financial statements, and have issued our report dated November 9, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2020-001.

### **District's Reponse to Finding**

The District's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the District's response and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hankins, Eastup, Deaton, Tonn & Seay, PC*

Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

November 9, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees  
Sherman Independent School District  
Sherman, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Sherman Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Sherman Independent School District's major federal programs for the year ended June 30, 2020. Sherman Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of finding and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Sherman Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sherman Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Sherman Independent School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Sherman Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## Report on Internal Control Over Compliance

Management of Sherman Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sherman Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sherman Independent School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Hankins, Eastup, Deaton, Tonn & Seay, PC*  
Hankins, Eastup, Deaton, Tonn & Seay, PC  
Denton, Texas

November 9, 2020

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2020

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. Internal control over financial reporting:  
Material weakness(es) identified: No  
Significant deficiency(ies) identified that are not considered to be material weaknesses: None reported
3. Noncompliance which is material to the financial statements: None
4. Internal controls over major federal programs:  
Material weakness(es) identified: None  
Significant deficiency(ies) identified that are not considered to be material weaknesses: None reported
5. Type of auditor's report on compliance for major federal programs: Unmodified.
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR 200.516(a)?: No
7. Major programs include:  
Child Nutrition Cluster:  
CFDA 10.553 School Breakfast Program  
CFDA 10.555 National School Lunch Program - Cash Assistance  
CFDA 10.555 National School Lunch Program - Non-Cash Assistance  
CFDA 10.558 Child & Adult Care Food Program - Cash Assistance  
  
CFDA 84.425D CARES Act Stimulus Grant
8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
9. Low risk auditee: Yes

II. Findings Related to the Financial Statements

None.

III. Findings and Questioned Costs Related to Federal Awards

None.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2020

IV. Other Findings

Finding 2020-001 – Pledged security less than required amount

Criteria: The Texas Public Funds Investment Act (the Act) requires the District's depository bank to pledge securities or letters of credit to the District to fully secure any bank balances that exceed the FDIC deposit insurance coverage on District bank balances. When certain types of securities are pledged, the Act requires that the value of the pledged collateral must equal 110% of uninsured deposits.

Condition: During the year ended June 30, 2020, there were three days on which the amount of collateral provided by the depository bank was less than the District's uninsured deposits.

Questioned Costs: None

Cause: The District monitors the level of deposits and collateral on a regular basis. Large deposits from large payroll or operating transfers caused the deposit balance to increase above normal levels.

Effect: Pledged collateral was less than the amount required by the Act on three days during the fiscal year. The amount of deposits not fully collateralized ranged from \$11,803 to \$2.6 million on those days.

Recommendation: The District has procedures in place to monitor balances and pledged collateral on a regular basis. The District needs to develop additional procedures so the bank increases pledged collateral when needed to cover large deposits.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020

No Prior Year Findings.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2020

**CORRECTIVE ACTION PLAN**

Finding 2020-001 - Pledged security less than required amount

Responsible Party: Tyson Bennett, Assistant Superintendent of Finance and Operations

Corrective Action - The District has researched the Letter of Credit (LOC) process with its depository bank. It was determined that the LOC amount was carried over from the District's previous depository bank. After consulting with the District's current depository bank, the depository bank increased the LOC from \$10.0 million to \$15.0 million effective September 24, 2020. This amount is expected to cover any unexpected short-term increases in deposits.

Expected Completion Date - September 2020

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2020

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs</u>			
Indian Education Grant	84.060A	S060A172542	\$ 69,560
Total Direct Programs			69,560
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101091906	24,701
ESEA, Title I, Part A - Improving Basic Programs	84.010A	20610101091906	1,880,154
Total CFDA Number 84.010A			1,904,855
*IDEA - Part B, Formula	84.027	206600010919066600	1,263,851
*SSA - IDEA - Part B, Discretionary	84.027	2066031	4,800
Total CFDA Number 84.027			1,268,651
*IDEA - Part B, Preschool	84.173	206610010919066610	18,724
Total Special Education Cluster (IDEA)			1,287,375
Career and Technical - Basic Grant	84.048	1920006091906	1,309
Career and Technical - Basic Grant	84.048	20420006091906	79,675
Total CFDA Number 84.048			80,984
ESEA, Title X, Part C -Homeless Children	84.196A	194600057110065	11,333
ESEA, Title X, Part C -Homeless Children	84.196A	204600057110065	17,912
Total CFDA Number 84.196A			29,245
Title III, Part A - English Language Acquisition	84.365A	20671001091906	29,896
ESEA, Title II, Part A, Teacher Principal Training	84.367A	19694501091906	38,498
ESEA, Title II, Part A, Teacher Principal Training	84.367A	20694501091906	135,316
Total CFDA Number 84.367A			173,814
ESEA, Title IV, Part A - Student Support	84.424A	19680101091906	31,475
ESEA, Title IV, Part A - Student Support	84.424A	20680101091906	16,730
Total CFDA Number 84.424A			48,205
CARES Act Stimulus Grant	84.425D	20521001091906	1,342,371
Total Passed Through State Department of Education			4,896,745
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>4,966,305</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	529-14-0042-00023	41,499
Total Passed Through Texas Dept of Human Services			41,499
<u>Passed Through State Department of Education</u>			
Head Start	93.600	06CH7092	25,708
Head Start	93.600	06CH7092	319,950
Total CFDA Number 93.600			345,658
Total Passed Through State Department of Education			345,658
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>387,157</b>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2020

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401901	1,001,076
*National School Lunch Program - Cash Assistance	10.555	71301901	2,350,689
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301901	341,872
Total CFDA Number 10.555			<u>2,692,561</u>
Total Child Nutrition Cluster			<u>3,693,637</u>
Child & Adult Care Food Program - Cash Assistance	10.558	206TX332N1099	<u>451,760</u>
Total Passed Through the State Department of Agriculture			<u>4,145,397</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>4,145,397</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			 <u><u>\$ 9,498,859</u></u>

\*Clustered Programs

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2020

1. The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions has been recorded in the accompanying combined financial statements for such contingencies.
4. The District also received \$1,102,003 of School Health and Related Services (SHARS) payments. These payments are not considered Federal awards for purposes of the Schedule of Expenditures of Federal Awards and were recorded as Federal revenues in the General Fund.

This page left blank intentionally.