

**SHERMAN INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE**  
**YEAR ENDED JUNE 30, 2018**

SHERMAN INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018

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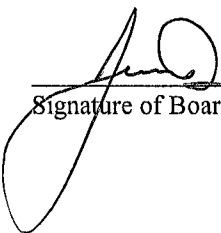
CERTIFICATE OF BOARD

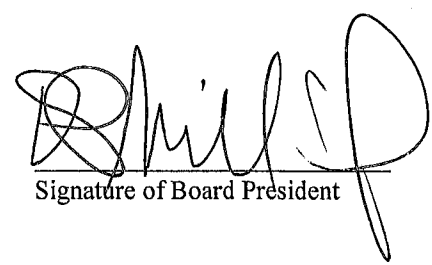
Sherman Independent School District  
Name of School District

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, 2018, at a meeting of the Board of Trustees of such school district on the 12th day of November, 2018.

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

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

Members:  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC  
ACCOUNTANTS  
TEXAS SOCIETY OF CERTIFIED  
PUBLIC ACCOUNTANTS

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**HANKINS, EASTUP, DEATON,  
TONN & SEAY**  
A PROFESSIONAL CORPORATION  

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CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST  
P.O. BOX 977  
DENTON, TX 76202-0977  
TEL. (940) 387-8563  
FAX (940) 383-4746

**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, 2018, 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, 2018, 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.

### ***Emphasis of Matter***

As discussed in Notes 11 and 21 to the financial statements, in the current fiscal year, the District adopted new accounting guidance prescribed by GASB Statement No. 75 for its other post-employment benefit (OPEB) plan – a multiple-employer, cost-sharing, defined benefit OPEB plan that has a special funding situation. Because GASB Statement No. 75 implements new measurement criteria and reporting provisions, significant information has been added to the Government-Wide Statements. Exhibit A-1 discloses the District's Net OPEB Liability and deferred resource outflows and deferred resource inflows related to the District's OPEB plan. Exhibit B-1 discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to the matter.

### **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 64 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 October 29, 2018 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*

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

October 29, 2018

**SHERMAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018  
(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, 2018.

**Financial Highlights**

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by (\$1,402,500) (*deficit net position*).
- The District's total net position increased by \$12,651,817 during the current fiscal year from the result of current year operations. However, beginning net position decreased by \$47,423,830 due to new accounting standards that required recording of the District's proportionate share of the Teacher Retirement System's net OPEB liability.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$210,060,924 an increase of \$184,529,492 in comparison with the prior year. The increase in governmental fund balances was due to an increase in the General Fund balance of \$4,212,178 an increase in the Debt Service Fund of \$5,879,389, and an increase in the Capital Projects Fund of \$174,452,737.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$21,729,214 or 34.7 percent of total general fund expenditures.
- The District's total bonded debt (par value) increased, net, by \$156.0 million during the current fiscal year. This includes two new bond issues totaling \$160.9 million.

**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 and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Payments Related to Shared Services Arrangements, 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 58 through 64.

## **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 66 through 73 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, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$1,402,500 at the close of the fiscal year (negative 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 \$23,539,283. 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>2018</b>	<b>2017</b>
Current and other assets	\$ 216,922,145	\$ 32,319,121
Capital and non-current assets	98,174,765	98,456,927
<b>Total Assets</b>	<b>315,096,910</b>	<b>130,776,048</b>
Deferred charge on bond refundings	818,428	1,334,552
Deferred outflows - pension	7,466,529	7,765,557
Deferred outflows - OPEB	312,372	-
<b>Total Deferred Outflows of Resources</b>	<b>8,597,329</b>	<b>9,100,109</b>
Current liabilities	8,667,241	5,901,224
Long-term liabilities	300,697,857	97,990,492
<b>Total Liabilities</b>	<b>309,365,098</b>	<b>103,891,716</b>
Deferred inflows - pension	4,436,205	-
Deferred inflows - OPEB	11,295,436	2,614,928
<b>Total Deferred Inflows of Resources</b>	<b>15,731,641</b>	<b>2,614,928</b>
<b>Net Position:</b>		
Net investments in capital assets	\$ 23,539,283	\$ 27,282,595
Restricted	10,324,020	6,801,729
Unrestricted	(35,265,803)	(714,811)
<b>Total Net Position</b>	<b>\$ (1,402,500)</b>	<b>\$ 33,369,513</b>

At the end of the current fiscal year, the District reports positive balances in net investment in capital assets and in restricted net position, while reporting a deficit balance in unrestricted net position. The District's net position decreased by \$34,772,013 during the current fiscal year.

The District's total ending net position is \$38.0 million lower due to new accounting standards adopted regarding the accounting for OPEB (TRS-Care retiree health insurance program) promulgated by the Governmental Accounting Standards Board.

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
<b>Program Revenues</b>		
Charges for services	\$ 1,110,418	\$ 1,171,167
Operating grants	2,889,586	13,735,591
<b>General Revenues</b>		
Property taxes	42,684,475	41,114,957
State Aid - Formula Grants	25,785,937	25,236,482
Interest earnings	1,551,143	137,880
Other	117,480	134,902
<b>Total Revenues</b>	<b>74,139,039</b>	<b>81,530,979</b>
<b>Expenses</b>		
Instruction	29,032,999	42,456,207
Instructional resources and media services	850,583	1,196,887
Curriculum and staff development	1,002,303	1,304,475
Instructional leadership	709,419	1,136,267
School leadership	2,451,980	3,788,411
Guidance, counseling, and evaluation services	1,984,975	2,573,998
Health services	467,459	800,406
Student transportation	1,465,305	2,050,106
Food service	3,654,144	3,699,458
Extracurricular activities	1,769,714	1,838,896
General administration	1,664,021	2,295,975
Facilities maintenance and operations	6,300,048	7,515,143
Security and monitoring services	239,556	221,606
Data processing services	2,778,051	2,536,092
Community services	21,159	20,413
Interest on long-term debt	4,938,438	3,213,498
Bond issuance costs and fees	1,386,573	2,624
Facilities acquisition & construction	-	75,000
Other intergovernmental charges	770,495	746,652
<b>Total Expenses</b>	<b>61,487,222</b>	<b>77,472,114</b>
Increase (Decrease) in Net Position	12,651,817	4,058,865
<b>Beginning Net Position</b>	<b>33,369,513</b>	<b>29,673,799</b>
Prior period adjustment	(47,423,830)	(363,151)
<b>Ending Net Position</b>	<b>\$ (1,402,500)</b>	<b>\$ 33,369,513</b>

## Governmental Activities

Governmental activities increased the District's net position by \$12,651,717. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent \$71,359,998 of total revenues. The remaining \$2,779,041 is generated from charges for services, investment earnings, and miscellaneous revenues.

	<u>Total Revenues</u>	<u>% of Total Revenues</u>
Property taxes	\$ 42,684,475	58%
State aid - formula grants	25,785,937	35%
Operating grants and contributions	2,889,586	4%
Charges for services	1,110,418	1%
Other revenue	1,668,623	2%
<b>Total Revenues</b>	<u>\$ 74,139,039</u>	<u>100%</u>

Operating grants and contributions decreased \$10.8 million due primarily to an \$11.2 million negative amount from an OPEB expense benefit for the State share of the OPEB negative expense.

The primary functional expenses of the District are instruction and facilities maintenance and operations, which represent 65 percent of total expenses. The remaining individual functional categories of expenses are each less than 9 percent of total expenses.

	<u>Total Expenses</u>	<u>% of Total Expenses</u>
Instruction	\$ 29,032,999	47%
Facilities maintenance and operations	6,803,048	11%
Other expenses	25,651,175	42%
<b>Total Expenses</b>	<u>\$ 61,487,222</u>	<u>100%</u>

## 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 \$210,060,924, an increase of \$184,529,492 in comparison with the prior fiscal year. The increase in ending governmental fund balances is primarily due to planned increases in the general fund and debt service fund fund balances as well as new bonds issued in the capital projects fund.

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 \$21,729,214, while total fund balance reached \$22,307,507. 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 34.7 percent of total general fund expenditures, while total fund balance represents 35.6 percent of that same amount. The fund balance of the District's general fund increased by \$4,212,178 during the current fiscal year. The increase in fund balance was due to a \$1.75 million increase in tax collections due to higher property values, and under-spending the amended budget by \$1.5 million.

The *debt service fund* has a total fund balance of \$12,367,030, 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 \$5,879,389 was in line with budgeted expectations and includes \$5.6 million of excess proceeds from the current year bond issues.

### General Fund Budgetary Highlights

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

	<b>Budget</b>	
	<u>Original</u>	<u>Final Amended</u>
Total revenues	\$ 64,204,316	\$ 64,204,316
Total expenditures	64,091,473	64,192,275
Other sources (uses)	-	-
<b>Net change in fund balance</b>	<u>\$ 112,843</u>	<u>\$ 12,041</u>

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 and facilities maintenance and operation.

### Capital Assets and Long-term Liabilities

#### Capital Assets

The District's investment in capital assets for its governmental type activities as of June 30, 2018 includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets as of June 30, 2018 was \$98,174,765. The following table summarizes the investment in capital assets as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Land	\$ 6,164,564	\$ 6,164,564
Construction in progress	2,464,173	-
Building and improvements	131,387,664	131,149,417
Furniture and equipment	21,138,309	20,616,736
<b>Total</b>	<u>161,154,710</u>	<u>157,930,717</u>
Accumulated depreciation	<u>(62,979,945)</u>	<u>(59,473,790)</u>
<b>Net capital assets</b>	<u>\$ 98,174,765</u>	<u>\$ 98,456,927</u>

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 \$300,697,857 in bonds and other long-term debt (including accreted interest on bonds) versus \$145,663,049 in the prior year, an increase of \$155,034,808. 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, 2018 are as follows:

	Balance 7/1/2017	Additions	Retired/ Refunded	Balance 6/30/2018	Due Within One Year
Bonds payable					
Carrying value	\$ 66,155,818	\$ 160,935,000	\$ 4,971,590	\$ 222,119,228	\$ 4,764,095
Unamortized premium (discount)	6,353,066	22,033,416	967,272	27,419,210	1,440,434
Total bonds payable	72,508,884	182,968,416	5,938,862	249,538,438	6,204,529
Accreted interest payable	9,224,521	781,261	828,410	9,177,372	840,905
Vested sick leave benefits	474,795	99,415	57,562	516,648	57,723
Net pension liability	15,782,292	-	1,319,964	14,462,328	-
Net other post-employment benefits (OPEB)	47,672,557	-	20,669,486	27,003,071	-
	<u>\$ 145,663,049</u>	<u>\$ 183,849,092</u>	<u>\$ 28,814,284</u>	<u>\$ 300,697,857</u>	<u>\$ 7,103,157</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 3.6 percent in June 2018. The current rate is lower than the overall State of Texas' unemployment rate of 4.2 percent.
- The District's combined tax rate was \$1.44 per \$100 of assessed property value in the 2017-18 fiscal year. The combined tax rate will increase to \$1.649 for next year (2018-19 fiscal year) due to new bonds issued during the 2018 fiscal year.
- The local certified property values at January 1, 2018 are estimated at \$3,252,640,066. Using the 2017 property value study, the State Comptroller calculated taxable values (after exemptions) of \$2,997,167,334 (T2 value).
- The District's student attendance rate in 2017-18 was equal to the previous year at 94.9%.
- The District's 2018-2019 adopted budget for the General Fund includes total revenues of \$66.2 million and total expenditures of \$65.8 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, 2018

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 105,254,661
1120 Current Investments	101,832,610
1220 Property Taxes Receivable (Delinquent)	1,829,656
1230 Allowance for Uncollectible Taxes	(219,802)
1240 Due from Other Governments	7,639,352
1260 Internal Balances	1,800
1290 Other Receivables, net	5,575
1300 Inventories	188,853
1410 Prepayments	389,440
Capital Assets:	
1510 Land	6,164,564
1520 Buildings, Net	84,681,178
1530 Furniture and Equipment, Net	4,864,850
1580 Construction in Progress	2,464,173
1000 Total Assets	315,096,910
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge on Bond Refundings	818,428
1703 Deferred Resource Outflows Related to TRS OPEB	312,372
1705 Deferred Resource Outflows Related to TRS Pension	7,466,529
1700 Total Deferred Outflows of Resources	8,597,329
<b>LIABILITIES</b>	
2110 Accounts Payable	818,449
2140 Accrued Interest Payable	3,126,053
2150 Payroll Deductions & Withholdings	758,841
2160 Accrued Wages Payable	3,502,846
2300 Unearned Revenue	461,052
Noncurrent Liabilities	
2501 Due Within One Year	7,103,157
2502 Due in More Than One Year	252,129,301
2540 Net Pension Liability (District's Share)	14,462,328
2545 Net OPEB Liability (District's Share)	27,003,071
2000 Total Liabilities	309,365,098
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2603 Deferred Resource Inflows Related to TRS OPEB	11,295,436
2605 Deferred Resource Inflows Related to TRS Pension	4,436,205
2600 Total Deferred Inflows of Resources	15,731,641
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	23,539,283
3820 Restricted for Federal and State Programs	764,942
3850 Restricted for Debt Service	9,559,078
3900 Unrestricted	(35,265,803)
3000 Total Net Position	\$ (1,402,500)

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, 2018

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	1	3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 29,032,999	\$ 309,016	\$ (306,031)	\$ (29,030,014)
12 Instructional Resources and Media Services	850,583	-	(109,325)	(959,908)
13 Curriculum and Staff Development	1,002,303	-	326,763	(675,540)
21 Instructional Leadership	709,419	-	(147,678)	(857,097)
23 School Leadership	2,451,980	-	(594,774)	(3,046,754)
31 Guidance, Counseling and Evaluation Services	1,984,975	-	576,124	(1,408,851)
33 Health Services	467,459	-	(111,036)	(578,495)
34 Student (Pupil) Transportation	1,465,305	-	133,623	(1,331,682)
35 Food Services	3,654,144	690,646	3,144,261	180,763
36 Extracurricular Activities	1,769,714	108,284	(52,393)	(1,713,823)
41 General Administration	1,664,021	-	(214,953)	(1,878,974)
51 Facilities Maintenance and Operations	6,300,048	2,472	(139,430)	(6,437,006)
52 Security and Monitoring Services	239,556	-	(11,323)	(250,879)
53 Data Processing Services	2,778,051	-	178,965	(2,599,086)
61 Community Services	21,159	-	19,466	(1,693)
72 Debt Service - Interest on Long Term Debt	4,938,438	-	197,327	(4,741,111)
73 Debt Service - Bond Issuance Cost and Fees	1,386,573	-	-	(1,386,573)
99 Other Intergovernmental Charges	770,495	-	-	(770,495)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 61,487,222</u>	<u>\$ 1,110,418</u>	<u>\$ 2,889,586</u>	<u>(57,487,218)</u>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		34,680,679
DT	Property Taxes, Levied for Debt Service		8,003,796
SF	State Aid - Formula Grants		25,785,937
IE	Investment Earnings		1,551,143
MI	Miscellaneous Local and Intermediate Revenue		117,480
TR	Total General Revenues		<u>70,139,035</u>
CN	Change in Net Position		12,651,817
NB	Net Position - Beginning		33,369,513
PA	Prior Period Adjustment		(47,423,830)
NE	Net Position--Ending		<u>\$ (1,402,500)</u>

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



SHERMAN INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 14,127,611	\$ 13,878,831	\$ 77,054,248
1120 Investments - Current	1,722,002	-	100,110,608
1220 Property Taxes - Delinquent	1,404,590	425,066	-
1230 Allowance for Uncollectible Taxes (Credit)	(169,558)	(50,244)	-
1240 Receivables from Other Governments	6,926,599	-	-
1260 Due from Other Funds	4,514,703	-	-
1290 Other Receivables	5,575	-	-
1300 Inventories	188,853	-	-
1410 Prepayments	389,440	-	-
1000 Total Assets	<u>\$ 29,109,815</u>	<u>\$ 14,253,653</u>	<u>\$ 177,164,856</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 456,102	\$ -	\$ 89,049
2150 Payroll Deductions and Withholdings Payable	697,467	-	-
2160 Accrued Wages Payable	3,093,674	-	-
2170 Due to Other Funds	1,553,133	1,568,522	2,623,070
2300 Unearned Revenues	-	-	-
2000 Total Liabilities	<u>5,800,376</u>	<u>1,568,522</u>	<u>2,712,119</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	1,001,932	318,101	-
2600 Total Deferred Inflows of Resources	<u>1,001,932</u>	<u>318,101</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3410 Inventories	188,853	-	-
3430 Prepaid Items	389,440	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	174,452,737
3480 Retirement of Long-Term Debt	-	12,367,030	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	21,729,214	-	-
3000 Total Fund Balances	<u>22,307,507</u>	<u>12,367,030</u>	<u>174,452,737</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 29,109,815</u>	<u>\$ 14,253,653</u>	<u>\$ 177,164,856</u>

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

Other Funds	Total Governmental Funds
\$ 193,971	\$ 105,254,661
-	101,832,610
-	1,829,656
-	(219,802)
712,753	7,639,352
1,553,133	6,067,836
-	5,575
-	188,853
-	389,440
<u>\$ 2,459,857</u>	<u>\$ 222,988,181</u>
\$ 273,298	\$ 818,449
61,374	758,841
409,172	3,502,846
321,311	6,066,036
461,052	461,052
<u>1,526,207</u>	<u>11,607,224</u>
-	1,320,033
<u>-</u>	<u>1,320,033</u>
-	188,853
-	389,440
764,942	764,942
-	174,452,737
-	12,367,030
168,708	168,708
-	21,729,214
<u>933,650</u>	<u>210,060,924</u>
<u>\$ 2,459,857</u>	<u>\$ 222,988,181</u>

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SHERMAN INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2018

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	210,060,924
1 Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund financial statements.		161,154,710
2 Accumulated depreciation is not reported in the fund financial statements.		(62,979,945)
3 Bonds payable are not reported in the fund financial statements.		(222,119,228)
4 Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.		(9,177,372)
5 Bond premiums and discounts on outstanding bonds payable are not reported in the fund financial statements.		(27,419,210)
6 Vested sick leave benefits payable are not reported in the fund financial statements.		(516,648)
7 Revenue from property taxes reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.		1,320,033
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.		(3,126,053)
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.		818,428
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 \$14,462,328, Deferred Inflows of Resources related to TRS in the amount of \$4,436,205, and Deferred Outflows of Resources related to TRS in the amount of \$7,466,529. This results in a decrease in Net Position in the amount of \$11,432,004.		(11,432,004)
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 \$27,003,071, a Deferred Resource Inflow related to TRS OPEB in the amount of \$11,295,436, and a Deferred Resource Outflow related to TRS OPEB in the amount of \$312,372. This results in a net decrease in Net Position in the amount of \$37,986,135.		(37,986,135)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(1,402,500)</u></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 BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 35,584,979	\$ 8,264,019	\$ 1,164,856
5800 State Program Revenues	29,023,233	197,327	-
5900 Federal Program Revenues	2,249,084	-	-
5020 Total Revenues	<u>66,857,296</u>	<u>8,461,346</u>	<u>1,164,856</u>
EXPENDITURES:			
Current:			
0011 Instruction	37,394,792	-	-
0012 Instructional Resources and Media Services	874,818	-	-
0013 Curriculum and Instructional Staff Development	846,708	-	-
0021 Instructional Leadership	1,052,550	-	-
0023 School Leadership	3,768,211	-	-
0031 Guidance, Counseling and Evaluation Services	1,748,053	-	-
0033 Health Services	724,603	-	-
0034 Student (Pupil) Transportation	2,057,413	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,820,524	-	-
0041 General Administration	2,122,126	-	-
0051 Facilities Maintenance and Operations	7,053,348	-	-
0052 Security and Monitoring Services	266,517	-	-
0053 Data Processing Services	2,170,417	-	247,946
0061 Community Services	1,693	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	4,971,590	-
0072 Interest on Long Term Debt	-	3,192,210	-
0073 Bond Issuance Cost and Fees	-	4,474	1,382,099
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	2,464,173
Intergovernmental:			
0099 Other Intergovernmental Charges	770,495	-	-
6030 Total Expenditures	<u>62,672,268</u>	<u>8,168,274</u>	<u>4,094,218</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,185,028</u>	<u>293,072</u>	<u>(2,929,362)</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued (Regular Bonds)	-	-	160,935,000
7912 Sale of Real and Personal Property	27,150	-	-
7916 Premium or Discount on Issuance of Bonds	-	5,586,317	16,447,099
7080 Total Other Financing Sources (Uses)	<u>27,150</u>	<u>5,586,317</u>	<u>177,382,099</u>
1200 Net Change in Fund Balances	4,212,178	5,879,389	174,452,737
0100 Fund Balance - July 1 (Beginning)	<u>18,095,329</u>	<u>6,487,641</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 22,307,507</u>	<u>\$ 12,367,030</u>	<u>\$ 174,452,737</u>

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

	Other Funds	Total Governmental Funds
\$	1,443,038	\$ 46,456,892
	691,910	29,912,470
	7,151,315	9,400,399
	9,286,263	85,769,761
	3,654,057	41,048,849
	14,273	889,091
	450,689	1,297,397
	9,388	1,061,938
	470	3,768,681
	847,235	2,595,288
	240	724,843
	-	2,057,413
	3,516,413	3,516,413
	53,703	1,874,227
	25,700	2,147,826
	402,431	7,455,779
	-	266,517
	307,010	2,725,373
	19,466	21,159
	-	4,971,590
	-	3,192,210
	-	1,386,573
	-	2,464,173
	-	770,495
	9,301,075	84,235,835
	(14,812)	1,533,926
	-	160,935,000
	-	27,150
	-	22,033,416
	-	182,995,566
	(14,812)	184,529,492
	948,462	25,531,432
\$	933,650	\$ 210,060,924

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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, 2018

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>184,529,492</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.		3,606,754
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.		(3,851,951)
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.		4,971,590
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.		47,149
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.		(41,853)
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.		967,272
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.		(516,124)
Interest is accrued on outstanding debt in the government-wide financial statements, but interest is expended as due in the fund financial statements.		(2,244,525)
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.		(447,960)
The book value of capital assets sold or disposed of is not recorded in the fund financial statements.		(36,965)
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 8/31/2017 caused the change in the ending net position to decrease by \$91,826. These contributions were replaced with the District's adjustment to pension expense for the year of \$708,515, which caused a decrease in the change in net position. The net effect of all of these is to decrease the change in net position by \$800,341.		(800,341)

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, 2018

EXHIBIT C-4

<p>Current year issuances of bonds are shown as other financing sources in the fund financial statements, but are shown as increases in long-term debt in the government-wide financial statements.</p>	<p>(160,935,000)</p>
<p>The premiums on the current year issuances of bonds are recorded as other financing sources in the fund financial statements, but are shown as an increase in long-term debt in the government-wide financial statements.</p>	<p>(22,033,416)</p>
<p>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 8/31/2017 but during the current fiscal year caused the ending net position to increase in the amount of \$59,418. These contributions were replaced with the District's OPEB expense for the year, which was \$9,378,277 benefit and also caused an increase in net position. The net effect of both of these is to increase the change in net position by \$9,437,695.</p>	<p>9,437,695</p>
<p><b>Change in Net Position of Governmental Activities</b></p>	<p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 12,651,817</p>

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2018

	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -	\$ 201,627
Investments - Current	35,692	-
Total Assets	<u>35,692</u>	<u>\$ 201,627</u>
<b>LIABILITIES</b>		
Due to Other Funds	1,800	\$ -
Due to Student Groups	-	201,627
Total Liabilities	<u>1,800</u>	<u>\$ 201,627</u>
<b>NET POSITION</b>		
Restricted for Other Purposes	<u>33,892</u>	-
Total Net Position	<u>\$ 33,892</u>	

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 62
Total Additions	<u>62</u>
DEDUCTIONS:	
Other Operating Costs	<u>400</u>
Total Deductions	<u>400</u>
Change in Net Position	(338)
Total Net Position - July 1 (Beginning)	<u>34,230</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 33,892</u></u>

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

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018

**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, 2018

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, 2018

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 pool 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.

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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, 2018	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$764,942
Nonappropriated Budget Funds	<u>168,708</u>
All Special Revenue Funds	<u>\$933,650</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, 2018.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
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**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 two 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, 2018 was \$818,428.

**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.



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The amount of deferred outflows reported in the governmental activities for deferred pension expenses at June 30, 2018 was \$7,466,529.

**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, 2018 was \$312,372.

*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 two 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, 2018 was \$1,320,033.

**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 2018, the District reported deferred inflows of resources for pensions in the governmental activities in the amount of \$4,436,205.

**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 2017 measurement year). In fiscal year 2018, the District reported deferred inflows of resources for OPEB in the governmental activities in the amount of \$11,295,436.

**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  
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**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 2018, 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.

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**P. IMPLEMENTATION OF NEW STANDARD**

In the current fiscal year the District implemented the following new standard:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* ("GASB 75") establishes accounting and financial reporting standards for other post-employment benefits (OPEB) that are provided to the employees of state and local governmental employers through plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

**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, 2018 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, 2018.

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- 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.

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 \$21,729,214 at June 30, 2018. Inventories of \$188,853 and prepaid items of \$389,440 are considered nonspendable fund balance.

**Debt Service Fund**

The Debt Service Fund has restricted funds of \$12,367,030 at June 30, 2018 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 \$174,452,737 at June 30, 2018 consisting primarily of remaining bond issuance proceeds that are restricted for construction and other capital outlay expenditures.

**Other Funds**

The fund balance of \$168,708 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 \$764,942 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, 2018, the carrying amount of the District's deposit checking accounts and interest-bearing demand accounts was \$1,335,583 and the bank balance was \$1,370,570. The District's cash deposits at June 30, 2018 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. There were fourteen days during the year ended June 30, 2018 when the District's cash deposits were not entirely covered by FDIC insurance, by pledged collateral or by letters of credit.

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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, 2018, the District’s cash deposits totaled \$1,370,570. 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, 2018. There were fourteen days during the fiscal year ended June 30, 2018 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, 2018, the District held investments in three 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, 2018, the District was not exposed to foreign currency risk.

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- 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, 2018, 48.6% of the District's investments were in CD's with Landmark Bank, the District's depository.

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 AAA-m 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.

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The District's investments at June 30, 2018, are shown below:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Days)</u>
<b>Governmental Activities</b>		
Cash and deposits	<u>\$ 1,134,971</u>	N/A
<i>Investments</i>		
Local Government Investments Pools		
LOGIC	20,615,787	28
Lone Star	18,893,115	25
TexasDaily	47,817	35
TexPool	28,738,737	28
TexSTAR	273	26
Texas CLASS	35,823,961	49
CD's		
Texas TERM CD's	973,826	365
Landmark Bank	100,110,608	490
Ameristate Bank	250,314	365
Independent Bank	250,601	391
First United Bank	<u>247,261</u>	365
<b>Total Investments</b>	<u>205,952,300</u>	
 <b>Total Governmental Activities</b>	 <u>207,087,271</u>	
 <b>Fiduciary Funds</b>		
Cash and Deposits	201,627	N/A
CD-Bank of Texas	<u>35,692</u>	365
<b>Total Fiduciary Funds</b>	<u>237,319</u>	
 <b>Total</b>	 <u><u>\$ 207,324,590</u></u>	

The amount of interest earned on the District's cash and investments for the fiscal year ended June 30, 2018, was \$1,551,205.

**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.

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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.

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

<u>Investments by Fair Value level:</u>	<u>Balance at 6/30/18</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates of Deposit	<u>\$101,868,301</u>	<u>\$ -</u>	<u>\$101,868,301</u>	<u>\$ -</u>

The fair value of the certificates of deposit at June 30, 2018 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, 2018, was as follows:

	<u>Balance July 1</u>	<u>Additions/ Completions</u>	<u>Retirement/ Adjustments</u>	<u>Balance June 30</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land	\$ 6,164,564	\$ -	\$ -	\$ 6,164,564
Construction in Progress	<u>-</u>	<u>2,464,173</u>	<u>-</u>	<u>2,464,173</u>
Total Capital assets not being depreciated	<u>6,164,564</u>	<u>2,464,173</u>	<u>-</u>	<u>8,628,737</u>
Capital assets, being depreciated				
Buildings and Improvements	131,149,417	238,247	-	131,387,664
Furniture and Equipment	<u>20,616,736</u>	<u>904,334</u>	<u>382,761</u>	<u>21,138,309</u>
Total capital assets being depreciated	<u>151,766,153</u>	<u>1,142,581</u>	<u>382,761</u>	<u>152,525,973</u>
Less accumulated depreciation for:				
Buildings and Improvements	(44,028,863)	(2,677,623)	-	(46,706,486)
Furniture and Equipment	<u>(15,444,927)</u>	<u>(1,174,328)</u>	<u>(345,796)</u>	<u>(16,273,459)</u>
Total accumulated depreciation	<u>(59,473,790)</u>	<u>(3,851,951)</u>	<u>(345,796)</u>	<u>(62,979,945)</u>
Total capital assets, being depreciated, net	<u>92,292,363</u>	<u>(2,709,370)</u>	<u>36,965</u>	<u>89,546,028</u>
Governmental activities capital assets, net	<u>\$ 98,456,927</u>	<u>\$ (245,197)</u>	<u>\$ 36,965</u>	<u>\$ 98,174,765</u>



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

Governmental activities:	
Instruction	\$1,506,421
Instructional Resources & Media Services	255,806
Instruction Leadership	21,490
School Leadership	100,705
Guidance, Counseling & Eval.	35,263
Health Services	7,588
Student (Pupil) Transportation	300,195
Food Services	137,731
Extracurricular Activities	155,527
General Administration	89,240
Plant Maintenance and Operations	430,142
Data Processing Services	<u>811,843</u>
Total depreciation expense-Governmental activities	<u>\$3,851,951</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, 2018:

	<u>Balance</u> <u>7/1/2017</u>	<u>Additions</u>	<u>Retired/ Re funded</u>	<u>Balance</u> <u>6/30/2018</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable					
Carrying value	\$ 63,700,000	\$ 160,935,000	\$ 4,785,000	\$ 219,850,000	\$ 4,590,000
Unamortized premium (discount)	8,808,884	22,033,416	1,153,862	29,688,438	1,614,529
Total bonds payable	<u>72,508,884</u>	<u>182,968,416</u>	<u>5,938,862</u>	<u>249,538,438</u>	<u>6,204,529</u>
Accreted interest payable	9,224,521	781,261	828,410	9,177,372	840,905
Vested sick leave benefits	474,795	99,415	57,562	516,648	57,723
Net pension liability	15,782,292	-	1,319,964	14,462,328	-
Net other post-employment benefits (OPEB)	47,672,557	-	20,669,486	27,003,071	-
	<u>\$ 145,663,049</u>	<u>\$ 183,849,092</u>	<u>\$ 28,814,284</u>	<u>\$ 300,697,857</u>	<u>\$ 7,103,157</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, 2018 was \$4,938,438; 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  
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**BONDS PAYABLE**

The following is a summary of the District's bonds outstanding as of June 30, 2018:

Issue	Interest Rates	Final Maturity	Amounts Original Issue	Amounts Outstanding July 1, 2017	Issued	Retired/Refunded	Amounts Outstanding June 30, 2018
School Building and Refunding Bonds, Series 1995A	5.75-7.90%	2022	\$24,395,012	\$ 445,000	\$ -	\$ 85,000	\$ 360,000
Refunding Bonds, Series 1998	3.8-5%	2025	11,696,357	2,320,000	-	-	2,320,000
Refunding Bonds, Series 2007	4%	2020	4,861,632	85,000	-	85,000	-
Refunding Bonds, Series 2012	2-3.25%	2030	9,629,732	8,385,000	-	85,000	8,300,000
Refunding Bonds, Series 2013	2-5%	2032	37,610,000	32,905,000	-	2,525,000	30,380,000
Refunding Bonds, Series 2014	2-5%	2032	15,760,000	10,670,000	-	645,000	10,025,000
Refunding Bonds, Series 2015	2-5%	2032	9,205,000	8,890,000	-	1,360,000	7,530,000
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	-	39,675,000	-	39,675,000
				<u>\$ 63,700,000</u>	<u>\$ 160,935,000</u>	<u>\$ 4,785,000</u>	<u>\$ 219,850,000</u>

**ADVANCE REFUNDINGS**

In prior years, the District has completed various advance refunding transactions of certain bond series. These advance refundings resulted in accounting losses that have been recorded as deferred outflows of resources on the statement of activities.

At June 30, 2018, none of the defeased bonds from the prior year advance refundings remain 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, 2018.

	Balance July 1, 2017	Additions	Retired	Balance June 30, 2018
Accreted Interest Payable	<u>\$ 9,224,521</u>	<u>\$ 781,261</u>	<u>\$ 828,410</u>	<u>\$ 9,177,372</u>

Accreted interest payable of \$828,410 was paid by the Debt Service Fund during the year ended June 30, 2018.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
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**DEBT SERVICE REQUIREMENTS**

Bonds payable debt service requirements are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 4,590,000	\$ 9,803,251	\$ 14,393,251
2020	4,770,000	10,083,240	14,853,240
2021	2,895,000	11,897,977	14,792,977
2022	3,285,000	12,035,373	15,320,373
2023	3,400,000	12,020,614	15,420,614
2024-2028	36,405,000	47,321,887	83,726,887
2029-2033	44,400,000	34,546,163	78,946,163
2034-2038	30,935,000	26,095,375	57,030,375
2039-2043	39,725,000	17,526,625	57,251,625
2044-2048	38,830,000	7,546,200	46,376,200
2049	<u>10,615,000</u>	<u>238,838</u>	<u>10,853,838</u>
	<u>\$219,850,000</u>	<u>\$189,115,543</u>	<u>\$408,965,543</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, 2018, 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, 2018, the District estimates that sick-leave benefits of \$516,648 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, 2017	\$1,334,552
Current year loss/(gain) on bond refunding	-
Current period amortization	<u>(516,124)</u>
Balance – June 30, 2018	<u>\$ 818,428</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**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, 2018. 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 2017-18 fiscal period was based was \$3,079,170,361. 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, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.27 per \$100 valuation, respectively, for a total of \$1.44 per \$ 100 valuation.

Current tax collections for the period ended June 30, 2018 were 99.1 % of the June 30, 2018 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, 2018, property taxes and penalty and interest receivable, net of estimated uncollectible taxes, totaled \$1,235,032 and \$374,822 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, 2018 represented short-term advances between funds. These amounts are expected to be repaid in less than one year from June 30, 2018.

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Governmental Funds:		
General Fund:		
Debt Service Fund	\$1,568,522	\$1,568,522
Capital Projects Fund	2,623,070	2,623,070
Non-Major Special Revenue Fund	321,311	1,553,133
Fiduciary Funds	<u>1,800</u>	<u>-</u>
Total Major Governmental Funds	<u>4,514,703</u>	<u>5,744,725</u>
Nonmajor Governmental Funds:		
Special Revenue Funds:		
General Fund	<u>1,553,133</u>	<u>321,311</u>
Total Nonmajor Governmental Funds	<u>1,553,133</u>	<u>321,311</u>
Fiduciary Funds:		
General Fund	<u>-</u>	<u>1,800</u>
Total	<u>\$6,067,836</u>	<u>\$6,067,836</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
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There were no transfers between funds during the year ended June 30, 2018.

**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 <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 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.

**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. 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. Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
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 FOR THE YEAR ENDED JUNE 30, 2018

<u>Contribution Rates</u>		
	<u>2018</u>	<u>2017</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Sherman ISD FY2018 Employer Contributions	\$	1,390,560
Sherman ISD FY2018 Member Contributions	\$	3,366,677
Sherman ISD 2018 NECE On-Behalf Contributions	\$	2,145,531

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 the 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.

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.

**Actuarial Assumptions.** The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

**Discount Rate.** The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan 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 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 8%. 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, 2017 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha	0%		1.0%
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

\* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

**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 (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Sherman ISD's proportionate share of the net pension liability:	\$24,380,617	\$14,462,328	\$6,203,730

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 NOTES TO THE BASIC FINANCIAL STATEMENTS  
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***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At June 30, 2018, Sherman Independent School District reported a liability of \$14,462,328 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	\$14,462,328
State's proportionate share that is associated with the District	<u>21,407,421</u>
Total	<u>\$35,869,749</u>

The net pension liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was .0452307%, a decrease of .0034659% from its proportionate share of .0417648% at August 31, 2016.

**Changes Since the Prior Actuarial Valuation** – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

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

For the year ended June 30, 2018, Sherman Independent School District recognized pension expense of \$2,189,670 and revenue of \$2,189,670 for support provided by the State.

At June 30, 2018, 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 211,590	\$ 779,934
Changes in actuarial assumptions	658,782	377,137
Difference between projected and actual investment earnings	2,224,138	3,278,121
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,220,323	1,013
Contributions paid to TRS subsequent to the measurement date	1,151,696	-
Total	\$7,466,529	\$4,436,205

\$1,151,696 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:



SHERMAN INDEPENDENT SCHOOL DISTRICT  
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Year ended June 30:	Pension Expense Amount
2019	\$ 265,975
2020	1,189,142
2021	195,042
2022	(77,846)
2023	185,790
Thereafter	120,525

**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.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$43,885,784,621
Less: plan fiduciary net position	<u>399,535,986</u>
Net OPEB liability	<u>\$43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

**Benefits Provided.** TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all 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 retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. 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 the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
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<b>TRS-Care Plan Premium Rates</b>				
Effective Sept. 1, 2016 - Dec. 31, 2017				
	<b>TRS-Care 1</b>		<b>TRS-Care 2</b>	
	<u>Basic Plan</u>		<u>Optional Plan</u>	
	\$	\$	\$	\$
Retiree*	0	70	100	
Retiree and Spouse	20	175	255	
Retiree* and Children	41	132	182	
Retiree and Family	61	237	337	
Surviving Children only	28	62	82	

\* 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 1.0% 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.

<u>Contribution Rates</u>		
	<u>2018</u>	<u>2017</u>
<b>Active Employee</b>	<b>0.65%</b>	<b>0.65%</b>
<b>Non-Employer Contributing Entity (State)</b>	<b>1.25%</b>	<b>1.00%</b>
<b>Employers</b>	<b>0.75%</b>	<b>0.55%</b>
<b>Federal/private Funding remitted by Employers</b>	<b>1.25%</b>	<b>1.00%</b>
<b>Sherman ISD FY18 Employer Contributions</b>	<b>\$357,584</b>	
<b>Sherman ISD FY18 Member Contributions</b>	<b>\$284,200</b>	
<b>Sherman ISD 2018 NECE On-behalf Contributions</b>	<b>\$580,456</b>	

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 employers hire a TRS retiree, they 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 \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018.

The District's proportionate of share of the \$212,000,000 received during the District's 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
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**Actuarial Assumptions.** The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions. The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

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

**Additional Actuarial Methods and Assumptions:**

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
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
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

**Discount Rate.** A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 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. *The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.*

**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 (3.42%) in measuring the Net OPEB Liability.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2018

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the Net OPEB Liability:	\$31,870,325	\$27,003,071	\$23,143,480

**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:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$22,482,758	\$27,003,071	\$32,934,297

**OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At June 30, 2018, the District reported a liability of \$27,003,071 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	\$27,003,071
State's proportionate share that is associated with the District	<u>33,550,536</u>
Total	<u>\$60,553,607</u>

The Net OPEB Liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.062862% which was the same proportion measured as of August 31, 2016.

**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:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions including participation rates, retirement rates, and spousal participation rates.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2018

2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact included assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

In this valuation the impact of the Cadillac Tax 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 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit 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 rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB liability during the measurement period.

For the year ended June 30, 2018, the District recognized OPEB expense of (\$11,226,901) and revenue of (\$11,266,901) for support provided by the State.

At June 30, 2018, 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	\$ -	\$ 563,710
Changes in actuarial assumptions	-	10,731,726
Difference between projected and actual investment earnings	4,102	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	125	-
Contributions paid to TRS subsequent to the measurement date	308,145	-
Total	\$ 312,372	\$11,295,436

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:

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30:	OPEB Expense Amount
2019	\$ (1,489,888)
2020	(1,489,888)
2021	(1,489,888)
2022	(1,489,888)
2023	(1,490,913)
Thereafter	(3,840,744)

**NOTE 12. RETIREE HEALTH PLAN**

*Plan Description.* Sherman Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees authority to establish and amend the basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us), by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017 and 2016. In fiscal year 2018, the State of Texas contribution rate increased to 1.25% and the District contribution rate increased to 0.75%. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended June 30, 2018, 2017 and 2016, the State's contributions to TRS-Care were \$580,456, \$397,292, and \$372,923, respectively, the active member contributions were \$284,200, \$290,347, and \$272,178, respectively, and the school district's contributions were \$357,584, \$245,102, and \$230,304, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended June 30, 2018, the contribution made on behalf of the District was \$133,254.

**NOTE 13. HEALTH CARE**

During the period ended June 30, 2018, employees of Sherman Independent School District were covered by a health insurance plan (the Plan). The District contributed \$300 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.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018

**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 17-18 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, 2018, 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	\$6,898,206	\$ 28,393	\$ -	\$6,926,599
Special Revenue	21,016	691,737	-	712,753
Debt Service	-	-	-	-
Total	<u>\$6,919,222</u>	<u>\$720,130</u>	<u>\$ -</u>	<u>\$7,639,352</u>

**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, 2018 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	\$ 34,690,966	\$ -	\$ 8,026,918	\$ -	\$ 42,717,884
Food Sales	-	690,646	-	-	690,646
Investment Income	217,608	21,029	147,650	1,164,856	1,551,143
Penalties, interest and other tax related income	325,104	-	89,451	-	414,555
Co-curricular student activities	108,284	185,947	-	-	294,231
Other	243,017	545,416	-	-	788,433
Total	<u>\$ 35,584,979</u>	<u>\$ 1,443,038</u>	<u>\$ 8,264,019</u>	<u>\$ 1,164,856</u>	<u>\$ 46,456,892</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2018

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

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

<u>Program or Source</u>	<u>CFDA #</u>	<u>Amount</u>
Indirect Costs:		
School Breakfast Program	10.553	\$ 97,172
National School Lunch Program	10.555	242,352
SHARS	N/A	<u>1,909,560</u>
		<u>\$2,249,084</u>

**NOTE 19. UNEARNED REVENUE**

Unearned revenue at June 30, 2018 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Student Account Balances	\$ -	\$ 28,506	\$ -	\$ 28,506
State & Federal Grant Funds	-	191,890	-	191,890
Local Grant Funds	-	<u>240,656</u>	-	<u>240,656</u>
	<u>\$ -</u>	<u>\$461,052</u>	<u>\$ -</u>	<u>\$461,052</u>

**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 one functional category in the Debt Service Fund for the year ended June 30, 2018.

**NOTE 21. PRIOR PERIOD ADJUSTMENT**

In fiscal year 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions (OPEB)*. As such, a prior period adjustment was necessary to record the beginning OPEB liability of the District. The following illustrates the effect of the prior period adjustment:

<b>Beginning Net Position – As Originally Presented</b>	\$ 33,369,513
Restatement due to:	
Net OPEB liability (measurement date as of August 31, 2016)	(47,672,557)
Deferred Outflows:	
District contributions made to TRS after August 31, 2016	<u>248,727</u>
<b>Beginning Net Position – As Restated</b>	<u><b>\$(14,054,317)</b></u>



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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, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 34,970,968	\$ 34,970,968	\$ 35,584,979	\$ 614,011
5800	State Program Revenues	28,283,348	28,283,348	29,023,233	739,885
5900	Federal Program Revenues	950,000	950,000	2,249,084	1,299,084
5020	Total Revenues	64,204,316	64,204,316	66,857,296	2,652,980
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	38,388,156	38,077,839	37,394,792	683,047
0012	Instructional Resources and Media Services	1,014,240	927,409	874,818	52,591
0013	Curriculum and Instructional Staff Development	850,507	917,524	846,708	70,816
0021	Instructional Leadership	1,211,385	1,097,480	1,052,550	44,930
0023	School Leadership	4,125,430	3,813,933	3,768,211	45,722
0031	Guidance, Counseling and Evaluation Services	1,995,105	1,826,358	1,748,053	78,305
0033	Health Services	858,919	755,103	724,603	30,500
0034	Student (Pupil) Transportation	2,239,950	2,122,190	2,057,413	64,777
0036	Extracurricular Activities	1,679,675	1,894,359	1,820,524	73,835
0041	General Administration	2,210,300	2,137,392	2,122,126	15,266
0051	Facilities Maintenance and Operations	6,744,733	7,354,573	7,053,348	301,225
0052	Security and Monitoring Services	303,130	287,579	266,517	21,062
0053	Data Processing Services	1,643,943	2,203,536	2,170,417	33,119
0061	Community Services	3,000	2,000	1,693	307
Capital Outlay:					
0081	Facilities Acquisition and Construction	75,000	-	-	-
Intergovernmental:					
0099	Other Intergovernmental Charges	748,000	775,000	770,495	4,505
6030	Total Expenditures	64,091,473	64,192,275	62,672,268	1,520,007
1100	Excess of Revenues Over Expenditures	112,843	12,041	4,185,028	4,172,987
<b>OTHER FINANCING SOURCES (USES):</b>					
7912	Sale of Real and Personal Property	-	-	27,150	27,150
1200	Net Change in Fund Balances	112,843	12,041	4,212,178	4,200,137
0100	Fund Balance - July 1 (Beginning)	18,095,329	18,095,329	18,095,329	-
3000	Fund Balance - June 30 (Ending)	\$ 18,208,172	\$ 18,107,370	\$ 22,307,507	\$ 4,200,137

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGET INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018

**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, 2018. During the year ended June 30, 2018, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u><b>General Fund</b></u>
Amendments Approved	\$100,802

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, 2017. 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, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0452307%	0.0417648%	0.04348929%	0.0292032%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 14,462,328	\$ 15,782,292	\$ 15,372,853	\$ 7,800,579
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	21,407,421	25,489,636	24,150,807	20,857,908
Total	<u>\$ 35,869,749</u>	<u>\$ 41,271,928</u>	<u>\$ 39,523,660</u>	<u>\$ 28,658,487</u>
District's Covered Payroll	\$ 45,296,346	\$ 42,125,583	\$ 40,456,183	\$ 39,293,878
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	31.93%	37.46%	38.00%	19.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 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, 2017 for year 2018, August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 1,390,560	\$ 1,450,907	\$ 1,323,576	\$ 1,190,741
Contribution in Relation to the Contractually Required Contribution	1,390,560	1,450,907	1,323,576	1,190,741
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 43,723,074	\$ 44,668,788	\$ 41,873,622	\$ 40,308,748
Contributions as a Percentage of Covered Payroll	3.18%	3.25%	3.16%	2.95%

Note: GASB 68, Paragraph 81 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.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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, 2018

	<u>FY 2018</u> <u>Plan Year 2017</u>
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.062862%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 27,003,071
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) associated with the District	33,550,536
Total	<u>\$ 60,553,607</u>
District's Covered Payroll	\$ 45,296,346
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	59.61%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	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 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year 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 CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED JUNE 30, 2018

	2018
Contractually Required Contribution	\$ 357,584
Contribution in Relation to the Contractually Required Contribution	357,584
Contribution Deficiency (Excess)	\$ -0-
District's Covered Payroll	\$ 43,723,074
Contributions as a Percentage of Covered Payroll	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  
PENSION AND OPEB INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018

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:*

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

OPEB LIABILITY:

*Changes of benefit terms:*

There were no changes in benefit terms that affected measurement of the total OPEB 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 OPEB liability since the prior measurement period:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact included assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

## COMBINING SCHEDULES

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2018

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	\$ -	\$ -	\$ -	\$ -
1240	135,626	8,465	228,900	213,361
1260	-	-	-	-
1000	<u>\$ 135,626</u>	<u>\$ 8,465</u>	<u>\$ 228,900</u>	<u>\$ 213,361</u>
<b>LIABILITIES</b>				
2110	\$ -	\$ -	\$ 5,017	\$ 367
2150	2,350	40	21,178	16,312
2160	10,587	374	148,708	117,693
2170	122,689	8,051	53,997	78,989
2300	-	-	-	-
2000	<u>135,626</u>	<u>8,465</u>	<u>228,900</u>	<u>213,361</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450	-	-	-	-
Committed Fund Balance:				
3545	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<u>\$ 135,626</u>	<u>\$ 8,465</u>	<u>\$ 228,900</u>	<u>\$ 213,361</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	286 Indian Education Grant	288 ESEA IV, A Student Support	289 Other Federal Special Revenue Funds
\$ -	\$ 856	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,710	26,466	3,344	6,048	58,518	8,299	-	-
-	1,097,727	-	-	-	-	-	24,152
<u>\$ 2,710</u>	<u>\$ 1,125,049</u>	<u>\$ 3,344</u>	<u>\$ 6,048</u>	<u>\$ 58,518</u>	<u>\$ 8,299</u>	<u>\$ -</u>	<u>\$ 24,152</u>
\$ -	\$ 197,161	\$ -	\$ -	\$ 44,727	\$ -	\$ -	\$ -
149	19,348	-	-	368	-	-	-
2,256	115,092	-	-	3,375	-	-	-
305	-	3,344	6,048	10,048	8,299	-	-
-	28,506	-	-	-	-	-	24,152
<u>2,710</u>	<u>360,107</u>	<u>3,344</u>	<u>6,048</u>	<u>58,518</u>	<u>8,299</u>	<u>-</u>	<u>24,152</u>
-	764,942	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	764,942	-	-	-	-	-	-
<u>\$ 2,710</u>	<u>\$ 1,125,049</u>	<u>\$ 3,344</u>	<u>\$ 6,048</u>	<u>\$ 58,518</u>	<u>\$ 8,299</u>	<u>\$ -</u>	<u>\$ 24,152</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2018

Data Control Codes	315 SSA IDEA, Part B Discretionary	385 Visually Impaired SSVI	397 Advanced Placement Incentives	410 State Textbook Fund	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240	Receivables from Other Governments	5,034	-	-	-
1260	Due from Other Funds	-	-	1,766	92,716
1000	<b>Total Assets</b>	<u>\$ 5,034</u>	<u>\$ -</u>	<u>\$ 1,766</u>	<u>\$ 92,716</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 75	\$ -	\$ -	\$ 20,227
2150	Payroll Deductions and Withholdings Payable	-	-	-	-
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	4,959	-	-	-
2300	Unearned Revenues	-	-	1,766	72,489
2000	<b>Total Liabilities</b>	<u>5,034</u>	<u>-</u>	<u>1,766</u>	<u>92,716</u>
<b>FUND BALANCES</b>					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 5,034</u>	<u>\$ -</u>	<u>\$ 1,766</u>	<u>\$ 92,716</u>

425 Texas Virtual School Network	429 Other State Special Revenue Funds	435 SSA Regional Day School - Deaf	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 193,115	\$ -	\$ 193,971
175	-	15,807	-	-	712,753
-	4,844	83,659	-	248,269	1,553,133
<u>\$ 175</u>	<u>\$ 4,844</u>	<u>\$ 99,466</u>	<u>\$ 193,115</u>	<u>\$ 248,269</u>	<u>\$ 2,459,857</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,724	\$ 273,298
-	-	1,578	-	51	61,374
-	-	9,249	-	1,838	409,172
175	-	-	24,407	-	321,311
-	4,844	88,639	-	240,656	461,052
<u>175</u>	<u>4,844</u>	<u>99,466</u>	<u>24,407</u>	<u>248,269</u>	<u>1,526,207</u>
-	-	-	-	-	764,942
-	-	-	168,708	-	168,708
-	-	-	168,708	-	933,650
<u>\$ 175</u>	<u>\$ 4,844</u>	<u>\$ 99,466</u>	<u>\$ 193,115</u>	<u>\$ 248,269</u>	<u>\$ 2,459,857</u>

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2018

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>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	326,768	49,653	1,749,650	1,441,533
5020 Total Revenues	326,768	49,653	1,749,650	1,441,533
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	324,952	34,300	1,411,724	594,896
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	1,479	-	317,546	585
0021 Instructional Leadership	-	6,653	395	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	1,423	845,812
0033 Health Services	-	-	-	240
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	8,700	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	337	-	18,562	-
6030 Total Expenditures	326,768	49,653	1,749,650	1,441,533
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	286 Indian Education Grant	288 ESEA IV, A Student Support	289 Other Federal Special Revenue Funds
\$ -	\$ 711,675	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	30,900	-	-	-	-	-	-
36,646	3,176,269	80,863	127,332	83,709	49,112	5,000	1,086
36,646	3,918,844	80,863	127,332	83,709	49,112	5,000	1,086
36,646	-	76,320	51	71,125	47,112	5,000	1,086
-	-	-	-	-	-	-	-
-	-	4,543	101,581	12,584	-	-	-
-	-	-	-	-	2,000	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3,516,413	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	25,700	-	-	-	-
-	402,431	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
36,646	3,918,844	80,863	127,332	83,709	49,112	5,000	1,086
-	-	-	-	-	-	-	-
-	764,942	-	-	-	-	-	-
\$ -	\$ 764,942	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



SHERMAN INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	315 SSA IDEA, Part B Discretionary	385 Visually Impaired SSVI	397 Advanced Placement Incentives	410 State Textbook Fund
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	1,085	-	479,208
5900 Federal Program Revenues	23,694	-	-	-
5020 Total Revenues	23,694	1,085	-	479,208
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	20,761	1,085	-	467,400
0012 Instructional Resources and Media Services	-	-	-	11,808
0013 Curriculum and Instructional Staff Development	2,933	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0033 Health 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	23,694	1,085	-	479,208
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	\$ -	\$ -	\$ -	\$ -

425 Texas Virtual School Network	429 Other State Special Revenue Funds	435 SSA Regional Day School - Deaf	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 30,299	\$ 185,947	\$ 515,117	\$ 1,443,038
15,721	49,742	115,254	-	-	691,910
-	-	-	-	-	7,151,315
15,721	49,742	145,553	185,947	515,117	9,286,263
15,721	40,632	145,526	200,759	158,961	3,654,057
-	-	-	-	2,465	14,273
-	8,543	27	-	868	450,689
-	-	-	-	340	9,388
-	-	-	-	470	470
-	-	-	-	-	847,235
-	-	-	-	-	240
-	-	-	-	-	3,516,413
-	-	-	-	45,003	53,703
-	-	-	-	-	25,700
-	-	-	-	-	402,431
-	-	-	-	307,010	307,010
-	567	-	-	-	19,466
15,721	49,742	145,553	200,759	515,117	9,301,075
-	-	-	(14,812)	-	(14,812)
-	-	-	183,520	-	948,462
\$ -	\$ -	\$ -	\$ 168,708	\$ -	\$ 933,650

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REQUIRED TEA SCHEDULES

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED JUNE 30, 2018

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ 2,436,434,315
2010	1.040000	0.400000	2,299,178,397
2011	1.040000	0.400000	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 (School year under audit)	1.170000	0.027000	3,079,170,361
1000 TOTALS			

(10) Beginning Balance 7/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2018
\$ 351,538	\$ -	\$ 8,934	\$ 3,436	\$ (101,012)	\$ 238,156
98,729	-	2,907	1,118	(1,154)	93,550
114,750	-	3,037	1,168	(2,065)	108,480
89,173	-	5,069	1,950	(1,780)	80,374
90,411	-	5,470	2,104	(1,624)	81,213
97,383	-	7,523	2,893	(1,839)	85,128
118,934	-	16,127	6,203	(1,932)	94,672
486,823	-	206,045	79,248	(74,731)	126,799
974,165	-	250,263	57,753	(450,947)	215,202
-	43,071,243	34,229,007	7,899,001	(237,153)	706,082
<u>\$ 2,421,906</u>	<u>\$ 43,071,243</u>	<u>\$ 34,734,382</u>	<u>\$ 8,054,874</u>	<u>\$ (874,237)</u>	<u>\$ 1,829,656</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, 2018

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	\$ 786,492	\$ 786,492	\$ 711,675	\$ (74,817)
5800 State Program Revenues	21,500	21,500	30,900	9,400
5900 Federal Program Revenues	3,477,447	3,477,447	3,176,269	(301,178)
5020 Total Revenues	4,285,439	4,285,439	3,918,844	(366,595)
EXPENDITURES:				
0035 Food Services	2,385,369	3,755,369	3,516,413	238,956
0051 Facilities Maintenance and Operations	320,000	450,000	402,431	47,569
6030 Total Expenditures	2,705,369	4,205,369	3,918,844	286,525
1200 Net Change in Fund Balances	1,580,070	80,070	-	(80,070)
0100 Fund Balance - July 1 (Beginning)	764,942	764,942	764,942	-
3000 Fund Balance - June 30 (Ending)	\$ 2,345,012	\$ 845,012	\$ 764,942	\$ (80,070)

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, 2018

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	\$ 8,022,300	\$ 8,022,300	\$ 8,264,019	\$ 241,719
5800	State Program Revenues	-	-	197,327	197,327
5020	Total Revenues	8,022,300	8,022,300	8,461,346	439,046
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	4,715,000	4,715,000	4,971,590	(256,590)
0072	Interest on Long Term Debt	3,293,500	3,293,500	3,192,210	101,290
0073	Bond Issuance Cost and Fees	10,000	10,000	4,474	5,526
6030	Total Expenditures	8,018,500	8,018,500	8,168,274	(149,774)
1100	Excess of Revenues Over Expenditures	3,800	3,800	293,072	289,272
OTHER FINANCING SOURCES (USES):					
7916	Premium or Discount on Issuance of Bonds	-	5,578,821	5,586,317	7,496
1200	Net Change in Fund Balances	3,800	5,582,621	5,879,389	296,768
0100	Fund Balance - July 1 (Beginning)	6,487,641	6,487,641	6,487,641	-
3000	Fund Balance - June 30 (Ending)	\$ 6,491,441	\$ 12,070,262	\$ 12,367,030	\$ 296,768



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FEDERAL AWARDS SECTION

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CERTIFIED PUBLIC ACCOUNTANTS

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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, 2018, 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 October 29, 2018.

**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 2018-001.

### **District's Response 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*

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

October 29, 2018

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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, 2018. 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, 2018.

## 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*

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

October 29, 2018

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

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:  

CFDA 84.010A ESEA, Title I, Part A - Improving Basic Programs
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.

IV. Other Finding

Finding 2018-001 – Pledged collateral 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.



SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2018

IV. Other Finding-continued

Condition: During the year ended June 30, 2018, there were fourteen days on which the amount of collateral pledged by the depository bank was less than the District's uninsured deposits.

Questioned Costs: None

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

Effect: Pledged collateral was less than the amount required by the Act on fourteen days during the fiscal year. The amount of deposits not fully collateralized ranged from \$15,620 to \$3.6 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, 2018

Finding 2017-001 – Child Nutrition Program Capital Asset Acquisition Approval

The District purchased nine pieces of equipment and did not obtain the required Texas Department of Agriculture approval prior to the purchases.

Status: The District completed its corrective action plan during the 2017-2018 fiscal year. Additional review procedures were implemented to review all Child Nutrition Program capital asset purchases. The District also conducted training with child nutrition employees regarding approval procedures. There were no purchases made during the 2018 fiscal year that required Texas Department of Agriculture approval.

SHERMAN INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018

**CORRECTIVE ACTION PLAN**

Finding 2018-001 – Pledged collateral less than required amount

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

Corrective Action – The District has consulted with its depository bank to establish new procedures to make sure bank balances are fully secured the same day deposits are made. These procedures include monitoring pledged collateral daily, and the District anticipating large deposits and transfers in advance. The District will be able to notify the bank each day by noon if additional pledged collateral is needed. The bank will pledge the additional collateral needed by 2:00 p.m. that same day. This procedure will ensure that District funds are appropriately collateralized at all times.

Expected Completion Date - November 2018

SHERMAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018

(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 EDUCATION</b>			
<u>Direct Programs</u>			
Indian Education Grant	84.060A	S060A172542	\$ 49,112
Total Direct Programs			49,112
<u>Passed Through Region 10 Education Service Center</u>			
ESEA, Title X, Part C -Homeless Children	84.196	17-066	17,972
ESEA, Title X, Part C -Homeless Children	84.196	18-005	31,681
Total CFDA Number 84.196			49,653
Total Passed Through Region 10 Education Service Center			49,653
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101091906	1,848
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18610101091906	1,747,802
Total CFDA Number 84.010A			1,749,650
*IDEA - Part B, Formula	84.027	186600010919066600	1,441,533
*SSA - IDEA - Part B, Discretionary	84.027	176600110919066673	6,759
*SSA - IDEA - Part B, Discretionary	84.027	186600110919066673	16,935
Total CFDA Number 84.027			1,465,227
*IDEA - Part B, Preschool	84.173	176610010919066610	13
*IDEA - Part B, Preschool	84.173	186610010919066610	36,633
Total CFDA Number 84.173			36,646
Total Special Education Cluster (IDEA)			1,501,873
Career and Technical - Basic Grant	84.048	17420006091906	514
Career and Technical - Basic Grant	84.048	18420006091906	80,349
Total CFDA Number 84.048			80,863
Title III, Part A - English Language Acquisition	84.365A	17671001091906	2,936
Title III, Part A - English Language Acquisition	84.365A	18671001091906	80,773
Total CFDA Number 84.365A			83,709
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	17694501091906	3,105
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	18694501091906	124,227
Total CFDA Number 84.367A			127,332
Summer School LEP	84.369A	69551702	1,086
ESEA, Title IV, Part A - Student Support	84.424A	18680101091906	5,000
Total Passed Through State Department of Education			3,549,513
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>3,648,278</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Region 10 Education Service Center</u>			
Head Start	93.600	06CH7092	19,719
Head Start	93.600	06CH7092	307,049
Total CFDA Number 93.600			326,768
Total Passed Through Region 10 Education Service Center			326,768
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>326,768</b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

SHERMAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2018

(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	71401801	929,496
*National School Lunch Program - Cash Assistance	10.555	71301701	2,318,651
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301801	265,562
Total CFDA Number 10.555			<u>2,584,213</u>
Total Child Nutrition Cluster			<u>3,513,709</u>
Child & Adult Care Food Program - Cash Assistance	10.558	186TX332N1099	2,084
Total Passed Through the State Department of Agriculture			<u>3,515,793</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>3,515,793</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 7,490,839</u>

\*Clustered Programs

SHERMAN INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018

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, 2018, 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 \$1,909,560 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.

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