

Sherman Independent School District

Annual Financial Report

Year Ended June 30, 2016

**Sherman Independent School District
Annual Financial Report
Year Ended June 30, 2016**

Table of Contents

	<u>Page</u>	<u>Exhibit</u>
<i>INTRODUCTORY SECTION</i>		
Certificate of Board	1	
<i>FINANCIAL SECTION</i>		
Independent Auditor’s Report	2 - 3	
Management’s Discussion and Analysis (Required Supplementary Information)	4 - 9	
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	10	A - 1
Statement of Activities	11	B - 1
Fund Financial Statements		
Balance Sheet - Governmental Funds	12	C - 1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13	C - 2
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14	C - 3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15	C - 4
Statement of Net Position - Fiduciary Funds	16	E - 1
Statement of Changes in Net Position - Fiduciary Funds	17	E - 2
Notes to Financial Statements	18 - 38	
Required Supplementary Information		
Budgetary Comparison Schedule - General Fund	39	G - 1
Schedule of the District’s Proportionate Share of the Net Pension Liability - Teachers Retirement System of Texas	40	G - 2
Schedule of District Contributions - Teachers Retirement System of Texas	41	G - 3
Notes to Required Supplementary Information - Teachers Retirement System of Texas	42	
Other Schedules (Required by TEA)		
Schedule of Delinquent Taxes Receivable	43 - 44	J - 1
Budgetary Comparison Schedule - Child Nutrition Program	45	J - 4
Budgetary Comparison Schedule - Debt Service Fund	46	J - 5
<i>FEDERAL AWARDS SECTION</i>		
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47 - 48	
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	49 - 50	
Schedule of Findings and Questioned Costs	51 - 53	
Schedule of Expenditures of Federal Awards	54 - 56	K - 1

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

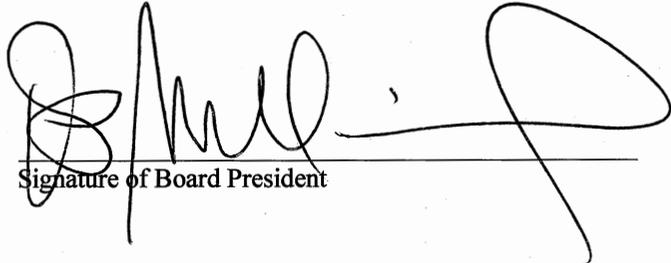
Sherman Independent School District
Name of School District

Grayson
County

091-906
County District Number

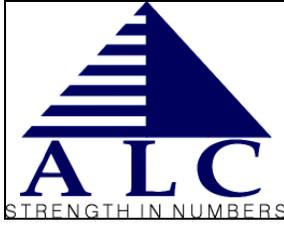
We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended June 30, 2016, at a meeting of the Board of Trustees of such school district on the 14th day of November 2016.


Signature of Board Secretary


Signature of Board President

If the board of trustees disapproved the auditor's report, the reason(s) for disapproving it is/are: (attach list as necessary)

FINANCIAL SECTION



ADAMI, LINDSEY & COMPANY, L.L.P.
Certified Public Accountants

123 NORTH CROCKETT STREET, SUITE 100
SHERMAN, TEXAS 75090

DAROLD P. ADAMI
JAMES A. LINDSEY
DAROLD P. ADAMI, JR.
BELINDA W. DEVINCENTIS
TIMOTHY D. TARABA

(903) 892-2727
FACSIMILE: (903) 868-9682
www.adamilindsey.com

Independent Auditor's Report

Board of Trustees
Sherman Independent School District
2701 Loy Lake Road
Sherman, Texas 75090

Members of the Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sherman Independent School District (the "District") as of and for the year ended June 30, 2016, 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 Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sherman Independent School District as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, Schedule of the District's Proportionate Share of the Net Pension Liability - Teachers Retirement System of Texas, and Schedule of District Contributions - Teachers Retirement System of Texas on pages 4 through 9 and 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, and is not a required part of the basic financial statements. The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance report in conformity with laws and regulations of the State of Texas. This information is identified in the table of contents as Exhibits J-1, J-4 and J-5.

The schedule of expenditure of federal awards and the TEA-required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and the TEA-required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

Adami, Lindsey & Company, L.L.P.

Sherman, Texas
November 11, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Sherman Independent School District (District) offers this narrative summary and analysis of the District's financial activities for the fiscal year ended June 30, 2016. Please read this analysis in conjunction with the District's financial statements and independent auditor's report, which follow this section.

Financial Highlights

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$29,673,799 at June 30, 2016. This amount is based on full accrual accounting, as required by Governmental Accounting Standards Board (GASB) Standard 34.
- The District's governmental funds reported combined ending fund balances of \$25,119,693 at June 30, 2016, using the modified accrual basis of accounting. The District has spending discretion over approximately sixty-nine percent (69%) of total fund balances (\$17,380,125 of \$25,119,693), reported as nonspendable, restricted, committed, assigned, and unassigned.
- In the General Fund, the District had unassigned fund balance of \$17,380,125 at June 30, 2016. This amount represents thirty-one percent (31%) of total general fund expenditures (\$56,173,537). The General Fund averaged expenditures of \$4,681,128 per month during the 2015-16 fiscal year; therefore, the unassigned fund balance represents approximately 3.8 months of expenditures.

In September 2016, the District received the Schools FIRST (Financial Integrity Rating System of Texas) Rating for the 2014-15 fiscal year. The District received a pass rating for the 2014-15 fiscal year. According to the Texas Education Agency, the primary goal of the Schools FIRST Rating System is to achieve quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of the accounting associated with Texas' school finance system. The FIRST Rating is similar to academic accountability ratings and is based on seven indicators and two possible ratings – Pass and Substandard Achievement.

Overview of the Financial Statements

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

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the 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 resources and liabilities and deferred inflows of resources, with the difference between them 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 net position changed during the most recent fiscal year. Revenues and expenses are reported in this statement regardless of when cash is received or paid; as a result, some items reported will only result in cash flows in future fiscal periods.

According to the District's government-wide financial statements, the District is principally supported by property taxes and governmental revenues (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no business-type activities and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the District's funds can be divided into two categories: governmental and fiduciary.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental fund financial statements can be found on pages 12 - 15 of this report.

The District maintains more than thirty 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 District's two (2) major funds – the General Fund and Debt Service Fund. Data from all other governmental funds are combined into a single, aggregated presentation. The District adopts an annual appropriated budget for its General Fund, Debt Service Fund and Food Service Fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets on pages 39, 45, and 46 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is the trustee, or fiduciary, for those funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary activities are reported in financial statements on page 16 - 17 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a complete understanding of the data in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 38 of this report.

Other 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. Required supplementary information can be found on pages 39 - 42 of this report; other schedules required by the Texas Education Agency can be found on pages 43 - 46 of this report.

Government-Wide Financial Analysis

Net position can measure a government’s financial position over time. The District’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$29,673,799 as of June 30, 2016, an increase of \$7,186,308 from the previous year.

District’s Net Position

<i>(rounded to millions)</i>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 31.2	\$ 27.6
Capital assets	<u>98.4</u>	<u>101.2</u>
Total assets	<u>129.6</u>	<u>128.8</u>
Deferred outflows of resources	<u>8.4</u>	<u>4.0</u>
Other liabilities	5.4	5.1
Long-term liabilities	<u>102.2</u>	<u>102.7</u>
Total liabilities	<u>107.6</u>	<u>107.8</u>
Deferred inflows of resources	<u>0.7</u>	<u>2.5</u>
Net position:		
Invested in capital assets, net of related debt	27.8	22.4
Restricted	1.0	1.0
Unrestricted	<u>0.9</u>	<u>-0.9</u>
Total net position	<u>\$ 29.7</u>	<u>\$ 22.5</u>

The District uses capital assets (land, building, furniture, and equipment) to provide services to students; consequently, these assets are not available for future spending. Other resources, such as future property taxes, will be needed to repay the District’s liabilities since the capital assets cannot be used to liquidate these liabilities. A small portion of the District’s net position (\$984,170 or 3%) is subject to external restrictions on how they may be used. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having long-term commitments that are less than currently available resources.

Governmental Activities – Total net position increased by \$7,186,308 during the 2015-16 fiscal year. The total cost of all governmental activities was \$73,576,083. Total revenues generated during the year were \$80,762,391, of which our taxpayers paid \$40,302,526 or fifty percent (50%).

Change in District’s Net Position

<i>(rounded to thousands)</i>	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services	\$ 950	\$ 1,039
Operating grants, contributions	11,524	11,770
General revenues:		
Property taxes	40,303	37,584
State aid	27,129	26,925
Investment income	58	10
Other	<u>799</u>	<u>392</u>
Total revenues	<u>80,763</u>	<u>77,720</u>
Expenses:		
Instruction	40,364	38,760
Instructional resources and media services	1,158	1,044

Curriculum and staff development	926	669
Instructional leadership	795	851
School leadership	3,585	3,300
Guidance, counseling and evaluation	2,459	2,369
Health services	777	713
Student transportation	1,917	1,693
Food services	3,978	3,842
Co-curricular/extracurricular activities	1,699	1,662
General administration	2,168	1,756
Plant maintenance and operations	7,194	7,099
Security and monitoring services	313	285
Data processing services	1,956	2,438
Community services	17	16
Debt service-interest	3,322	4,046
Debt service-bond issuance cost and fees	148	224
Facilities acquisition and construction	75	16
Intergovernmental charges	<u>725</u>	<u>665</u>
Total expenses	<u>73,576</u>	<u>71,448</u>
Increase in net position	7,187	6,272
Beginning net position	<u>22,487</u>	<u>16,215</u>
Ending net position	<u>\$ 29,674</u>	<u>\$ 22,487</u>

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

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, the amount in unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

At June 30, 2016, the District's governmental funds reported combined fund balances of \$25,119,693, an increase of \$3,185,711. Unassigned fund balance represents a large portion of total fund balances (\$17,380,125 or 69%) and is available for future spending or unanticipated events such as state funding uncertainties, increased student enrollment, wide swings in total property tax values, future salary increases, or unexpected lawsuits. The remainder of fund balance (\$7,739,568 or 31%) is not available for new spending because it has already been committed for inventory, debt retirement, food service, outstanding encumbrances, and unspent incentive grants.

The General Fund is the primary operating fund of the District. At June 30, 2016, the general fund had unassigned fund balances of \$17,380,125 and total fund balances of \$17,714,605. As a measure of the general fund's liquidity, it is useful to compare both fund balance amounts to total fund expenditures (\$56,173,537). Unassigned fund balance and total fund balance represent thirty-one percent (31%) and thirty-two percent (32%) of total general fund expenditures, respectively. The unassigned fund balance represents approximately three months of annual general fund expenditures.

Total fund balance increased by \$2,968,848 in the General Fund during the current fiscal year. A key factor related to this change was the District's performance compared to its budget, including:

- The final budget projected revenues of \$58,433,826 while the District recognized revenues of \$59,128,962, a positive variance of \$695,136 with the budget.
- The final budget estimated expenditures of \$57,452,881 while the District recognized expenditures of \$56,173,537, a positive variance of \$1,279,344 with the budget.

General Fund Budgetary Highlights

Over the course of the year, the District recommended and the Board approved several revisions to budgeted revenue and appropriations. Budget amendments typically fall into the following categories:

- Amendments approved in the new fiscal year for amounts carried over from the budget of the prior fiscal year;
- Amendments in the spring to revise local and state revenue, based on recent information concerning student attendance, property values, and tax collections; and
- Amendments for unexpected events.

The District made significant amendments to budgeted expenditures (increase of \$410,300) as follows:

- Wheelchair lifts (\$50,000).
- Expenses related to portable buildings at the Dillingham campus (\$67,000).
- Athletic venue updates - tennis courts, pressbox (\$15,800).
- Affordable Care Act consulting / reporting (\$15,500).
- Maintenance upgrades for future cost savings (\$9,000).
- Superintendent search (\$10,000).
- Fulfill contractual obligations (\$243,000).

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets for its governmental activities at June 30, 2016, totaled \$98,430,211 (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, and furniture and equipment. Additional information on the District's capital assets can be found in Note III, Section D on page 26 of this report. The District had the following capital assets at June 30, 2016 and 2015:

<i>(rounded to thousands)</i>	<u>2016</u>	<u>2015</u>
Land	\$ 3,504	\$ 3,504
Buildings and improvements, net	89,706	92,279
Furniture and equipment, net	<u>5,220</u>	<u>5,408</u>
Total (historical cost)	<u>\$ 98,430</u>	<u>\$ 101,191</u>

Long-term debt – At June 30, 2016, the District had total bonded debt outstanding of \$70,603,475, a decrease of \$8,155,541 from the prior year. State statutes limit the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The District's total debt represents 2.4% of total assessed valuation.

Additional information on the District's long-term debt can be found in Note III, Section F on pages 26 - 28 of this report.

Economic Factors, Next Year's Budgets and Tax Rates

- The unemployment rate for Sherman-Denison was 2.4 percent in June 2016. The current rate is lower than the overall State of Texas' unemployment rate of 4.5 percent.
- The District's combined tax rate was \$1.44 per \$100 of assessed property value in the 2015-16 fiscal year. The combined tax rate will remain at \$1.44 for next year (2016-17 fiscal year).
- The local certified property values at January 1, 2016 are estimated at \$2,919,093,122. The District's property values per student stayed below the threshold (\$319,500) for Chapter 41 payments (Robin Hood). Using the 2015 property value study, the State Comptroller calculated taxable values (after exemptions) of \$2,776,768,535 (T2 value).
- The District's student attendance rate in 2015-16 was slightly lower (95.3%) than the previous year (95.7%).

Request for Information

This financial report is designated to provide our citizens, customers, investors and creditors with a general overview of the District's finances and demonstrate accountability for the District's funds. Questions concerning this report or requests for additional information should be addressed to the Assistant Superintendent of Finance and Operations, P.O. Box 1176, Sherman, Texas 75091-1176.

Basic Financial Statements

Sherman Independent School District
Statement of Net Position
June 30, 2016

Exhibit A-1

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and Cash Equivalents	\$ 3,942,383
1120	Current Investments	17,554,704
1220	Property Taxes Receivable (Delinquent)	2,173,942
1230	Allowance for Uncollectible Taxes	(265,017)
1240	Due from Other Governments	7,129,648
1290	Other Receivables	18,914
1300	Inventories - Supplies and Materials	334,480
1410	Prepayments	353,676
	Capital Assets:	
1510	Land	3,504,463
1520	Buildings and Improvements (Net)	89,706,067
1530	Furniture and Equipment (Net)	5,219,681
1000	Total Assets	129,672,941
	Deferred Outflows of Resources	
1701	Deferred Charge on Refunding	1,983,579
1705	Deferred Outflows - Pension Plan	6,369,417
	Total Deferred Outflows of Resources	8,352,996
	Liabilities	
2110	Accounts Payable	395,553
2140	Accrued Interest Payable	953,177
2150	Payroll Deduction and Withholdings Payable	702,017
2160	Accrued Wages Payable	3,032,698
2300	Unearned Revenues	310,960
	Long-Term Liabilities:	
2501	Due Within One Year	5,277,533
2502	Due in More Than One Year	81,568,769
2540	Net Pension Liability (District's Share)	15,372,853
2000	Total Liabilities	107,613,560
	Deferred Inflows of Resources	
2602	Deferred Credit on Refunding	121,374
2605	Deferred Inflows - Pension Plan	617,204
	Total Deferred Inflows of Resources	738,578
	Net Position	
3200	Net Investment in Capital Assets	27,826,735
	Restricted for:	
3820	Federal and State Programs	984,170
3900	Unrestricted	862,894
3000	Total Net Position	\$ 29,673,799

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

**Sherman Independent School District
Statement of Activities
Year Ended June 30, 2016**

Exhibit B-1

Data Control Codes		Program Revenues		Net Revenue	
	Expenses	Charges for Services	Operating Grants and Contributions	(Expense) and Changes in Net Position	
Governmental Activities					
11	Instruction	\$ 40,363,926	\$ 63,036	\$ 6,074,989	\$(34,225,901)
12	Instructional Resources and Media Services	1,158,085	-	44,200	(1,113,885)
13	Curriculum and Instructional Staff Development	926,501	-	278,799	(647,702)
21	Instructional Leadership	794,862	-	54,326	(740,536)
23	School Leadership	3,584,829	-	211,653	(3,373,176)
31	Guidance, Counseling and Evaluation Services	2,459,444	-	769,046	(1,690,398)
33	Health Services	776,830	-	37,909	(738,921)
34	Student (Pupil) Transportation	1,916,964	-	80,514	(1,836,450)
35	Food Services	3,978,306	743,975	3,163,773	(70,558)
36	Extracurricular Activities	1,698,688	141,430	67,961	(1,489,297)
41	General Administration	2,167,512	-	104,242	(2,063,270)
51	Facilities Maintenance and Operations	7,194,477	1,985	577,050	(6,615,442)
52	Security and Monitoring Services	312,506	-	1,826	(310,680)
53	Data Processing Services	1,955,710	-	40,240	(1,915,470)
61	Community Services	17,437	-	17,437	-
72	Debt Service - Interest on Long-Term Debt	3,322,385	-	-	(3,322,385)
73	Debt Service - Bond Issuance Costs and Fees	147,807	-	-	(147,807)
81	Facilities Acquisition and Construction	75,000	-	-	(75,000)
99	Other Intergovernmental Charges	724,814	-	-	(724,814)
	Total Governmental Activities	\$ 73,576,083	\$ 950,426	\$ 11,523,965	(61,101,692)
General Revenues					
Taxes:					
MT	Property Taxes - Levied for General Purposes				29,070,131
DT	Property Taxes - Levied for Debt Service				11,232,395
SF	State Aid and Federal Formula Grants				27,128,699
IE	Investment Earnings				58,081
MI	Miscellaneous Local and Intermediate Revenue				798,694
TR	Total General Revenues				68,288,000
CN	Change in Net Position				7,186,308
NB	Net Position - Beginning of Year				22,487,491
NE	Net Position - End of Year				\$ 29,673,799

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

**Sherman Independent School District
Balance Sheet - Governmental Funds
June 30, 2016**

Exhibit C-1

Data Control Codes	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Assets				
1110 Cash and Cash Equivalents	\$ 3,762,646	\$ -	\$ 179,737	\$ 3,942,383
1120 Current Investments	11,058,911	6,495,793	-	17,554,704
1220 Property Taxes Receivable (Delinquent)	1,600,779	573,163	-	2,173,942
1230 Allowance for Uncollectible Taxes	(194,472)	(70,545)	-	(265,017)
1240 Due from Other Governments	6,664,266	-	465,382	7,129,648
1260 Due from Other Funds	730,851	-	1,704,487	2,435,338
1290 Other Receivables	3,328	-	13,786	17,114
1300 Inventories	334,480	-	-	334,480
1410 Prepayments	182,911	-	1,215	184,126
1000 Total Assets	<u>\$ 24,143,700</u>	<u>\$ 6,998,411</u>	<u>\$ 2,364,607</u>	<u>\$ 33,506,718</u>
Liabilities				
2110 Accounts Payable	\$ 361,347	\$ -	\$ 34,206	\$ 395,553
2150 Payroll Deductions and Withholdings	630,279	-	71,738	702,017
2160 Accrued Wages Payable	2,615,301	-	417,397	3,032,698
2170 Due to Other Funds	1,704,487	326,184	402,867	2,433,538
2300 Unearned Revenues	-	13,495	297,465	310,960
2000 Total Liabilities	<u>5,311,414</u>	<u>339,679</u>	<u>1,223,673</u>	<u>6,874,766</u>
Deferred Inflows of Resources				
2601 Unavailable Revenue - Property Taxes	1,117,681	394,578	-	1,512,259
2500 Total Deferred Inflows of Resources	<u>1,117,681</u>	<u>394,578</u>	<u>-</u>	<u>1,512,259</u>
Fund Balances				
Nonspendable Fund Balances:				
3410 Inventories	334,480	-	-	334,480
Restricted Fund Balances:				
3450 Federal or State Funds Grant	-	-	984,170	984,170
3480 Retirement of Long-Term Debt	-	6,264,154	-	6,264,154
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	156,764	156,764
3600 Unassigned Fund Balance	17,380,125	-	-	17,380,125
3000 Total Fund Balances	<u>17,714,605</u>	<u>6,264,154</u>	<u>1,140,934</u>	<u>25,119,693</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 24,143,700</u>	<u>\$ 6,998,411</u>	<u>\$ 2,364,607</u>	<u>\$ 33,506,718</u>

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

**Sherman Independent School District
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2016**

Exhibit C-2

Total Fund Balances - Governmental Funds \$ 25,119,693

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Governmental capital assets	154,282,551
Less: accumulated depreciation	(55,852,340)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of financial position. Balances at year-end are:

Bonds payable	(70,603,475)
Unamortized premium / discount on bonds payable	(6,952,129)
Deferred charges / credits on bond refunding transactions	1,862,205
Accreted interest payable	(9,226,458)
Compensated absences	(64,240)

The District recognizes its proportionate share of the net pension liability of the multiple-employer pension plan to which it contributes, as required by GASB 68.

Net pension liability	(15,372,853)
Deferred outflows / inflows related to the pension plan	5,752,213

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

Unavailable revenue - property taxes	1,512,259
Accrued interest payable	(953,177)
Prepayments	169,550

Net Position of Governmental Activities	\$ 29,673,799
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The accompanying notes are an integral part of these financial statements.

Sherman Independent School District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2016

Exhibit C-3

Data Control Codes	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Revenues				
5700 Local and Intermediate Sources	\$ 29,591,386	\$ 11,265,562	\$ 1,614,295	\$ 42,471,243
5800 State Program Revenues	28,515,035	245,284	871,090	29,631,409
5900 Federal Program Revenues	1,022,541	-	7,592,095	8,614,636
5020 Total Revenues	<u>59,128,962</u>	<u>11,510,846</u>	<u>10,077,480</u>	<u>80,717,288</u>
Expenditures				
Current:				
0011 Instruction	33,790,452	-	4,336,759	38,127,211
0012 Instructional Resources and Media Services	861,105	-	20,717	881,822
0013 Curriculum and Instructional Staff Development	653,187	-	261,938	915,125
0021 Instructional Leadership	763,854	-	12,140	775,994
0023 School Leadership	3,387,120	-	18,254	3,405,374
0031 Guidance, Counseling and Evaluation Services	1,731,651	-	689,219	2,420,870
0033 Health Services	762,832	-	-	762,832
0034 Student (Pupil) Transportation	1,959,266	-	-	1,959,266
0035 Food Services	-	-	3,904,631	3,904,631
0036 Extracurricular Activities	1,484,302	-	54,956	1,539,258
0041 General Administration	2,016,883	-	32,846	2,049,729
0051 Plant Maintenance and Operations	6,572,936	-	388,407	6,961,343
0052 Security and Monitoring Services	311,735	-	-	311,735
0053 Data Processing Services	1,078,400	-	312,774	1,391,174
0061 Community Services	-	-	17,437	17,437
Debt Service:				
0071 Debt Service - Principal on Long-Term Debt	-	8,510,000	-	8,510,000
0072 Debt Service - Interest on Long-Term Debt	-	2,808,569	-	2,808,569
0073 Debt Service - Bond Issuance Cost and Fees	-	147,807	-	147,807
Capital Outlay:				
0081 Facilities Acquisition and Construction	75,000	-	-	75,000
Intergovernmental:				
0099 Other Intergovernmental Charges	724,814	-	-	724,814
6030 Total Expenditures	<u>56,173,537</u>	<u>11,466,376</u>	<u>10,050,078</u>	<u>77,689,991</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,955,425</u>	<u>44,470</u>	<u>27,402</u>	<u>3,027,297</u>
Other Financing Sources (Uses)				
7901 Refunding Bonds Issued	-	9,205,000	-	9,205,000
7912 Sale of Real or Personal Property	13,423	-	-	13,423
7916 Premium or Discount on Issuance of Bonds	-	791,203	-	791,203
8940 Payment to Bond Refunding Escrow Agent	-	(9,851,212)	-	(9,851,212)
Total Other Financing Sources (Uses)	<u>13,423</u>	<u>144,991</u>	<u>-</u>	<u>158,414</u>
1200 Net Change in Fund Balances	2,968,848	189,461	27,402	3,185,711
0100 Fund Balances - July 1 (Beginning)	<u>14,745,757</u>	<u>6,074,693</u>	<u>1,113,532</u>	<u>21,933,982</u>
3000 Fund Balances - June 30 (Ending)	<u>\$ 17,714,605</u>	<u>\$ 6,264,154</u>	<u>\$ 1,140,934</u>	<u>\$ 25,119,693</u>

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

Sherman Independent School District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2016

Exhibit C-4

Total Net Change in Fund Balances - Governmental Funds \$ 3,185,711

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	985,033
Depreciation expense	(3,729,066)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Proceeds from refunding bonds issued	(9,205,000)
Premium on issuance of bonds	(791,203)
Payment to bond refunding escrow agent	9,851,212
Payment of bond principal	7,720,541
Payment of accreted interest payable, net of current year accretions	(38,657)
Amortization of deferred charges / credits on bond refunding transactions	(529,791)
Amortization of bond premiums / discounts	677,644

The District's proportionate share of the net pension liability is reported as a debt in the statement but is not recognized in the governmental funds as this liability will not be payable in the current period. Recognition of pension plan accounting and reporting in accordance with GASB 68 also creates timing differences, whereby certain pension transactions are recognized in the governmental funds but not in the government-wide financial statements.

Adjust District's proportionate share of net pension liability to actuarially determined amount	(1,645,044)
Reverse pension plan contributions from prior fiscal year before measurement date	212,395
Reverse pension plan contributions from current fiscal year after measurement date	1,123,613
Amortize deferred inflows / outflows of resources related to pension plan	(815,397)

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

Unavailable revenue - property taxes	48,373
Accrued interest payable	166,447
Prepayments	8,259
Miscellaneous transactions involving capital assets	(16,693)
Accrued compensated absences	(22,069)

Change in Net Position of Governmental Activities \$ 7,186,308

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

**Sherman Independent School District
Statement of Net Position
Fiduciary Funds
June 30, 2016**

Exhibit E-1

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and Cash Equivalents	\$ -	\$ 205,695
Current Investments	36,030	-
Total Assets	36,030	\$ 205,695
Liabilities		
Due to Other Funds	\$ 1,800	\$ -
Due to Student Groups	-	205,695
Total Liabilities	1,800	\$ 205,695
Net Position		
Restricted for Scholarships	34,230	
Total Net Position	\$ 34,230	

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

**Sherman Independent School District
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2016**

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Local and Intermediate Source	\$ 72
Total Additions	72
Deductions	
Other Operating Costs	-
Total Deductions	-
Change in Net Position	72
Total Net Position - July 1 (Beginning)	34,158
Total Net Position - June 30 (Ending)	\$ 34,230

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

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sherman Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with United States generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants and complies with the Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The Board has governance responsibility over all activity related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined GASB in its Statement No. 14, *The Financial Reporting Entity*, as amended by GASB 39 *Determining Whether Certain Organizations are Component Units* and GASB 61 *The Financial Reporting Entity: Omnibus*. There are no component units that are material to the District and none are included in the financial statements.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the nonfiduciary activities of the District with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support; the District has no business-type activities.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to parties that purchase, use or directly benefit from goods, services or privileges provided by a given function or segment of the District and 2) grants and contributions paid by organizations outside the District that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Interfund activity results from services provided, reimbursements or transfers between funds. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out, as well as interfund receivables and payables, are eliminated in the presentation of the government-wide financial statements.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded in the accounting period in which the fund liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when the obligations are expected to be liquidated with available expendable resources.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

Fiduciary Funds financial statements are reported on a *flow of economic resources measurement focus* and the *accrual basis of accounting*. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The total net position is segregated into: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

D. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses. The District reports the following major governmental funds:

General Fund – This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. Major revenue sources include property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service and capital projects.

Debt Service Fund – This fund accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following nonmajor fund type:

Governmental Funds:

Special Revenue Funds – These funds account for resources restricted to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance is accounted for in special revenue funds and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

The District reports the following fiduciary funds:

Private Purpose Trust Fund – The District accounts for donations for which the donor has stipulated that the principal will remain intact and the income may be used for purposes that benefit parties outside the District.

Agency Fund – This fund accounts for resources held in a custodial capacity by the District and consists of funds that are the property of student groups.

E. Assets, Liabilities and Net Position / Equity

1. Deposits and Investments

The District utilizes a pooled cash system that is available to all funds but is recorded in the General Fund. The balance of the pooled cash applicable to other funds is reflected as an interfund receivable or payable, as appropriate, in that fund. There are separate cash accounts for the interest and sinking and capital projects funds, which are held exclusively for those funds and are so presented.

The District's investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. 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. The market value of pooled investments is based upon information provided by the plan sponsor.

2. Property Taxes

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

Tax collections are allocated between the General Fund and Debt Service Fund based on the tax rate approved by the Board of Trustees. For the current fiscal year, the tax rates to finance general fund operations and the payments of principal and interest on general obligation long-term debt were \$1.04 and \$0.40 per \$100 valuation, respectively, for a total of \$1.44 per \$100 valuation.

Allowances for uncollectibles within the General Fund and Debt Service Fund are based upon historical experience in collecting property 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.

3. Inventory

The District reports inventories of supplies, including custodial, instructional, office and paper. Supplies are recorded as expenditures when they are consumed. The inventory items are valued at cost, which approximates market. The District records a reservation of fund balance for the value of inventories at year-end.

4. Capital Assets

Capital assets, which include land, buildings, furniture, vehicles, and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Position / Equity (continued)

4. Capital Assets (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	15 - 50
Vehicles	7 - 12
Equipment	5 - 12

5. 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 but does not vest. See Note III, Section H.

6. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond discounts and premiums are capitalized and amortized over the life of the bonds using the straight-line method, which is not significantly different from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing sources. Premiums 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.

7. Fund Equity

The District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which 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. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Trustees). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Position / Equity (continued)

8. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

9. Restricted Resources

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

10. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

11. Pensions

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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Board adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Child Nutrition Program (a special revenue fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 20, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after the fiscal year end. Several amendments were approved during the year; however, none were significant.
4. Each budget is monitored at the revenue and expenditure function level. Budgeted amounts are amended as needed by the Board. All budget appropriations lapse at year-end.

B. Excess of Expenditures over Appropriations

The expenditures of the Debt Service Fund (a major governmental fund) exceeded its budgeted appropriations by \$1,484,135 during the year ended June 30, 2016.

C. Deficit Fund Equity

None of the District's funds have deficit fund equity as of June 30, 2016.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and 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, and (9) 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, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as prescribed 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* for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be 100% secured by collateral valued at market less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. As of June 30, 2016, the District's deposits are not exposed to custodial credit risk.
- b. *Custodial credit risk* for investments 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. The District's policy provides that investment collateral is held by a third-party custodian with whom the District has a current custodial agreement in the District's name. As of June 30, 2016, the District's investments are not exposed to custodial credit risk.
- c. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District's policy provides that to the extent practicable, investments are matched with anticipated cash flows. As of June 30, 2016, the District's investments are not subject to interest rate risk.
- d. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the District's investments in a single issuer. Cumulatively, no more than 5% of the total District portfolio may be placed with any single financial institution or issuer. This risk does not apply to U.S. Government securities or investments in an external investment pool. As of June 30, 2016, the District's investments are not subject to concentration of credit risk.

The District categorizes the fair value of its pooled investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Fair value measurements for the District's pooled investments (see schedule on following page) are based information provided by the plan sponsor (Level 2 inputs).

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and Investments (continued)

The District's investments at June 30, 2016 are shown below:

Name	Cost	Fair Value	Credit Rating	Maturity
Pooled Investments:				
Texpool	\$ 2,442,996	\$ 2,443,436	AAAm	< 1 Year
Lone Star Investment Pool	13,377,498	13,379,063	AAA	< 1 Year
TexasTERM	15,763	15,763	AAAm	< 1 Year
TexSTAR	268	268	AAAm	< 1 Year
LOGIC	5	5	AAA	< 1 Year
Certificates of Deposit:				
TexasTERM	988,000	992,576	N/A	< 1 Year
American Bank of Texas	240,963	240,963	N/A	< 1 Year
Ameristate Bank	241,801	241,801	N/A	< 1 Year
Independent Bank	240,711	240,829	N/A	< 1 Year
Total Investments	<u>\$ 17,548,005</u>	<u>\$ 17,554,704</u>		

B. Receivables

Receivables as of June 30, 2016 for the District's individual major funds and nonmajor governmental funds in the aggregate, including the applicable provisions for uncollectible accounts, are as follows:

	Governmental Funds			
	Major Funds			Total
	General Fund	Debt Service	Other Funds	
Taxes	\$ 1,600,779	\$ 573,163	\$ -	\$ 2,173,942
Due from Other Governments	6,664,266	-	465,382	7,129,648
Other Receivables	3,328	-	13,786	17,114
Total Receivables	8,268,373	573,163	479,168	9,320,704
Allowance for Uncollectible Accounts	(194,472)	(70,545)	-	(265,017)
Net Receivables	<u>\$ 8,073,901</u>	<u>\$ 502,618</u>	<u>\$ 479,168</u>	<u>\$ 9,055,687</u>

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 and Per Capita programs. Amounts due from Federal, State and other governments as of June 30, 2016 are summarized below. Most federal grants are passed through the Texas Education Agency.

Fund	State Entitlements	Federal Grants	State Grants	Other	Total
General Fund	\$ 6,589,122	\$ -	\$ -	\$ 75,144	\$ 6,664,266
Special Revenue Funds	-	465,069	313	-	465,382
Total	<u>\$ 6,589,122</u>	<u>\$ 465,069</u>	<u>\$ 313</u>	<u>\$ 75,144</u>	<u>\$ 7,129,648</u>

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

C. Interfund Receivables, Payables and Transfers

Interfund balances at June 30, 2016 consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Special Revenue Funds (various)	\$ 380,636	Pooled Cash Overdraft
General Fund	Special Revenue Funds (various)	22,231	Miscellaneous
General Fund	Permanent Fund	1,800	Other Reimbursements
Special Revenue Funds (various)	General Fund	1,704,487	Pooled Cash Allocations
General Fund	Debt Service Fund	326,184	Other Reimbursements
		<u>\$ 2,435,338</u>	

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

D. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capital Assets Not Being Depreciated				
Land	\$ 3,504,463	\$ -	\$ -	\$ 3,504,463
Total Capital Assets Not Being Depreciated	<u>3,504,463</u>	<u>-</u>	<u>-</u>	<u>3,504,463</u>
Capital Assets Being Depreciated				
Buildings and Improvements	130,968,281	96,917	-	131,065,198
Furniture and Equipment	19,138,509	888,116	(313,735)	19,712,890
Total Capital Assets Being Depreciated	<u>150,106,790</u>	<u>985,033</u>	<u>(313,735)</u>	<u>150,778,088</u>
Less Accumulated Depreciation				
Buildings and Improvements	(38,689,612)	(2,669,519)	-	(41,359,131)
Furniture and Equipment	(13,730,704)	(1,059,547)	297,042	(14,493,209)
Total Accumulated Depreciation	<u>(52,420,316)</u>	<u>(3,729,066)</u>	<u>297,042</u>	<u>(55,852,340)</u>
Net Capital Assets Being Depreciated	<u>97,686,474</u>	<u>(2,744,033)</u>	<u>(16,693)</u>	<u>94,925,748</u>
Governmental Capital Assets, Net	<u>\$101,190,937</u>	<u>\$ (2,744,033)</u>	<u>\$ (16,693)</u>	<u>\$ 98,430,211</u>

Depreciation expense of the governmental activities was charged to functions / programs as follows:

Instruction	\$ 1,537,867
Instructional Resources and Media Services	265,882
School Leadership	102,549
Student (Pupil) Transportation	284,901
Food Services	136,484
Extracurricular Activities	159,977
General Administration	90,989
Plant Maintenance and Operations	425,487
Data Processing Services	724,930
Total Depreciation Expense	<u>\$ 3,729,066</u>

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

E. Unearned Revenue

Governmental funds delay revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2016, the various components of *unearned revenue* reported in the governmental funds were as follows:

Contributions and Gifts	\$ 261,389
Federal / State Grants and Aid	24,338
Cafeteria Sales	23,973
Other Local Revenues	1,260
Total	\$ 310,960

F. Long-Term Obligations

The following schedule indicates the changes in long-term debt during the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Due Within One Year
Bonds Payable					
Carrying Value	\$ 78,759,016	\$ 9,205,000	\$ 17,360,541	\$ 70,603,475	\$ 4,447,657
Unamortized Premium (Discount)	6,890,000	791,203	729,074	6,952,129	-
Total Bonds Payable	85,649,016	9,996,203	18,089,615	77,555,604	4,447,657
Accreted Interest Payable	9,187,801	828,116	789,459	9,226,458	765,636
Vested Sick Leave Benefits	42,171	22,069	-	64,240	64,240
Net Pension Liability	7,800,579	7,572,274	-	15,372,853	-
Totals	\$ 102,679,567	\$ 18,418,662	\$ 18,879,074	\$ 102,219,155	\$ 5,277,533

Current requirements for principal and interest expenditures (bonds payable 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, 2016 was \$3,322,385; 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 Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Obligations (continued)

1. Bonds Payable

The following is a summary of the District's bonds outstanding as of June 30, 2016:

Issue	Interest Rates	Final Maturity	Amounts Original Issue	Amounts Outstanding July 1, 2015	Issued	Retired / Refunded	Amounts Outstanding June 30, 2016
School Building and Refunding Bonds, Series 1995A	5.75 - 7.90%	2022	\$ 24,395,012	\$ 2,027,927	\$ -	\$ 310,541	\$ 1,717,386
Refunding Bonds, Series 1998	3.8 - 5%	2025	11,696,357	2,956,357	-	-	2,956,357
School Building and Refunding Bonds, Series 2006A	4 - 5%	2033	67,705,994	11,005,000	-	10,450,000	555,000
Refunding Bonds, Series 2007	4%	2020	4,861,632	2,220,000	-	1,690,000	530,000
Refunding Bonds, Series 2012	2 - 3.25%	2030	9,629,732	9,379,732	-	80,000	9,299,732
Refunding Bonds, Series 2013	2 - 5%	2032	37,610,000	37,610,000	-	2,295,000	35,315,000
Refunding Bonds, Series 2014	2 - 5%	2032	37,610,000	13,560,000	--	2,260,000	11,300,000
Refunding Bonds, Series 2015	2 - 5%	2032	9,205,000	-	9,205,000	275,000	8,930,000
Total Bonds Payable				<u>\$ 78,759,016</u>	<u>\$ 9,205,000</u>	<u>\$ 17,360,541</u>	<u>\$ 70,603,475</u>

2. Advance Refunding

The Series 2015 bonds provided moneys for the advance refunding of the District's Refunding Bonds, Series 2006A and Series 2007. The 2006A bonds, which bore an interest rate of 5%, had an outstanding balance of \$11,005,000 at the time of the advance refunding; a total of \$8,380,000 will be refunded by this bond refunding. The Series 2007 bonds, which bore an interest rate of 4%, had an outstanding balance of \$2,220,000 at the time of the advance refunding; a total of \$1,260,000 will be refunded by this bond refunding. A total of \$9,851,212 from the net proceeds of the 2015 bonds was deposited into an irrevocable trust with an escrow agent to provide all future debt payments on the Series 2006A and Series 2007 bonds. These bonds are considered fully defeased and the liability for these bonds was removed from the District's financial statements.

The advance refunding reduced the District's debt service requirements over the next 15 years by approximately \$3,054,939. The advance refunding resulted in an economic gain (the difference between the net present value of the old and new debt service requirements) of \$2,596,130 and an accounting loss (the difference between the book value of the old debt and the amount required to retire the debt) of \$181,250. In accordance with accounting standards, the accounting loss is not reported on the statement of activities but is recorded as a deferred outflow of resources on the statement of net position to be amortized over the shorter of the life of the defeased bonds or the new bonds.

At June 30, 2016, none of the defeased bonds from current or prior year advance refundings remain outstanding.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Obligations (continued)

3. Accreted 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, 2016.

	Balance June 30, 2015	Additions	Retired	Balance June 30, 2016
Accreted Interest Payable	\$ 9,187,801	\$ 828,116	\$ 789,459	\$ 9,226,458

Accreted interest payable of \$789,459 was paid by the Debt Service Fund during the year ended June 30, 2016.

4. Vested Sick-Leave Benefits

This calculation is discussed in Note III, Section H.

G. Debt Service Requirements

Debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 4,447,657	\$ 3,358,493	\$ 7,806,150
2018	4,606,590	3,192,210	7,798,800
2019	4,764,095	3,034,105	7,798,200
2020	4,934,910	2,877,640	7,812,550
2021	3,354,135	4,394,815	7,748,950
2022 - 2026	23,721,356	15,301,444	39,022,800
2027 - 2031	20,854,732	3,116,343	23,971,075
2032 - 2036	3,920,000	122,500	4,042,500
Totals	\$ 70,603,475	\$ 35,397,550	\$106,001,025

H. 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, 2016, 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. Available State days are utilized first. At retirement, State-mandated days lapse while unused District days become 25% vested and payable at the most recent rate of pay.

Clerical, secretarial and aide employees annually accrue 10 days of sick-leave benefits provided by the District. Accumulation and carryover is limited to 50 days that, upon retirement, become 25% vested and payable at the most recent rate of pay.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

H. Accumulated Unpaid Vacation and Sick-Leave Benefits (continued)

Hourly employees consist of mechanics, maintenance, custodial and food-service employees along with bus drivers. With the exception of food-service employees, all full-time employees accrue annually 78 hours of sick-leave benefits while part-time employees accrue 39 hours. Full-time employees may accumulate and carryover 400 hours, and part-time employees may accumulate and carryover 200 hours. Food-service employees are divided into three categories based on the number of hours worked per day. Annual accruals are 42 hours for employees who work five or more hours per day, 21 hours for employees who work three to four hours daily and 10 1/2 hours for employees who work two hours per day. Accumulation and carryover of sick-leave hours are 250, 125 and 52 1/2, respectively, for the food-service employees. At retirement, all hourly employees become 25% vested in their unused sick leave, which is payable at the most recent rate of pay.

At June 30, 2016, the District estimates that sick-leave benefits of \$64,240 will be paid to retiring employees during the year ending June 30, 2017. This amount has been recorded as a liability in the District's financial statements.

I. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The following schedule summarizes the District's deferred outflows of resources and deferred inflows of resources reported in the government-wide statement of financial position at June 30, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred Charge / Credit on Bond Refunding	\$ 1,983,579	\$ 121,374
Pension Plan	6,369,417	617,204
	\$ 8,352,996	\$ 738,578

The deferred charge or credit on bond refunding 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 deferrals related to the pension plan are actuarial and other differences arising from the operation of the TRS plan. Depending on the deferral, these items are amortized over a fixed five-year period or over the average expected remaining service life of all members of TRS as of the beginning of the measurement period. More details on the deferred outflows of resources and deferred inflows of resources related to the pension plan are available in Note IV B.

The following schedule summarizes the deferred inflows of resources reported in the balance sheet of the governmental funds at June 30, 2016:

	General Fund	Debt Service Fund	Total
Unavailable Revenue - Property Taxes	\$ 1,117,681	\$ 394,578	\$ 1,512,259

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

III. DETAILED NOTES ON ALL FUNDS (continued)

J. Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the District's governmental funds are composed of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Nonspendable:				
Inventories	\$ 334,480	\$ -	\$ -	\$ 334,480
Restricted:				
Federal or State Grants	-	984,170	-	984,170
Retirement of Long-Term Debt	-	-	6,264,154	6,264,154
Committed:				
Campus Activities / Programs	-	156,764	-	156,764
Unassigned	17,380,125	-	-	17,380,125
Total	<u>\$ 17,714,605</u>	<u>\$ 1,140,934</u>	<u>\$ 6,264,154</u>	<u>\$ 25,119,693</u>

K. Revenue from Local and Intermediate Sources

During the year ended June 30, 2016, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$ 29,082,375	\$ -	\$ 11,171,778	\$ 40,254,153
Penalties, Interest and Other	211,104	-	77,341	288,445
Tax-Related Income	29,293,479	-	11,249,119	40,542,598
Investment Income	34,630	7,008	16,443	58,081
Food Sales	-	743,975	-	743,975
Co-curricular Student Activities	120,639	-	-	120,639
Gifts and Bequests	-	161,193	-	161,193
Other	142,638	702,119	-	844,757
Total	<u>\$ 29,591,386</u>	<u>\$ 1,614,295</u>	<u>\$ 11,265,562</u>	<u>\$ 42,471,243</u>

L. Nonmonetary Transactions

During the year ended June 30, 2016, the District received \$276,082 of food commodities from the U. S. Department of Agriculture. The value, which approximates fair market value, of these commodities was determined by the federal government's distribution center.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION

A. 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. The District carries insurance for all risk management issues. The District participates in public entity risk pools when the pool is cost effective and the District does not retain a risk in excess of a normal deductible. The District has followed GASB Statement Number 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverages for each of the past three fiscal years.

1. Health Insurance

Employees of the District were covered by the Active Care programs offered by the Teacher Retirement System of Texas (TRS) through Aetna Insurance. The District paid premiums of \$300 per employee to the Plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS.

2. Unemployment Compensation Pool

During the year ended June 30, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended June 30, 2016, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year (August 31). The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

3. Workers' Compensation Insurance

Employees of the District will be covered by a fully insured policy through Claims Administrative Services, Inc.

B. Defined Benefit Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by TRS. The 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.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

B. Defined Benefit Pension Plan (continued)

2. 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.

3. 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 in (1) above.

4. 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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, GAA established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State of Texas)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2015 Employer Contributions	\$	1,287,735
District's 2015 Member Contributions	\$	2,699,571
District's 2015 NECE On-Behalf Contributions	\$	2,023,635

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 TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the GAA.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

B. Defined Benefit Pension Plan (continued)

4. Contributions (continued)

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical 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 sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

- When employing a retiree of the TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school 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.

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
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

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

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

B. Defined Benefit Pension Plan (continued)

6. 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 at August 31, 2015 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns *
Global Equity			
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%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
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%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

B. Defined Pension Benefit Plan (continued)

7. 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 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's Proportionate Share of the Net Pension Liability	\$ 24,086,363	\$ 15,372,853	\$ 8,115,041

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability of \$15,372,853 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the 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 the District were as follows:

District's Proportionate Share of Collective Net Pension Liability	\$ 15,372,853
State's Proportionate Share that is Associated with the District	<u>24,150,807</u>
Total	<u><u>\$ 39,523,660</u></u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the District's proportion of the collective net pension liability was 0.0434892% which was an increase of 0.0142860% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional / longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

B. Defined Pension Benefit Plan (continued)

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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

For the year ended August 31, 2015, the District recognized pension expense of \$2,023,635 and revenue of \$2,023,635 for support provided by the State.

At June 30, 2016, the 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	\$ -	\$ 490,461
Changes in Actuarial Assumptions	-	126,743
Difference Between Projected and Actual Investment Earnings	1,997,860	-
Changes in Proportion and Difference Between the District's Contributions and the Proportionate Share of Contributions	3,260,376	-
Contributions Paid to TRS Subsequent to the Measurement Date	1,111,181	-
Total	\$ 6,369,417	\$ 617,204

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

B. Defined Pension Benefit Plan (continued)

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (in the amount of \$1,062,908) will be recognized as a reduction of net pension liability for the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	\$ 815,398
2018	815,398
2019	815,399
2020	1,411,441
2021	458,688
Thereafter	324,708

C. Postemployment Benefits Other than Pensions

1. Plan Description

The 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 TRS. TRS-Care 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 the authority to establish and amend 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 under the Publications heading, by calling 1-800-223-8778, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. Funding for optional coverage is provided for those participants selecting the optional coverage. Contributions rates and amounts are shown in the table below for fiscal years 2014 - 2016.

Contribution Rates and Contribution Amounts

Year	Active Member		State		District	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	\$ 253,988	1.0%	\$ 318,022	0.55%	\$ 214,911
2015	0.65%	262,006	1.0%	357,855	0.55%	221,696
2016	0.65%	272,178	1.0%	372,923	0.55%	230,304

2. Medicare Part D

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 Part D allows for the 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 have been recognized as equal revenues and expenditures by the District, in the amount of \$123,056, \$122,408 and \$107,516 for the years ended June 30, 2016, 2015 and 2014, respectively.

Sherman Independent School District
Notes to Financial Statements
June 30, 2016

IV. OTHER INFORMATION (continued)

D. Commitments and Contingencies

1. Contingencies

The District receives a portion of its revenues from government grants and contracts, all of which are subject to audit by federal and state agencies. The determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the respective agencies. As a result, there exists a contingency to refund any amount received in excess of allowable costs. The amount, if any, of expenses which may be disallowed by the grantor agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

2. Litigation

The District is defendant in various pending and threatened litigation matters, which have occurred during the normal course of operations. Although the outcome of these matters is not presently determinable, it is the opinion of the District's management that the resolution of these matters will not have a material adverse effect on the financial condition of the District at June 30, 2016.

E. Related Organizations

The Sherman Independent School District Education Foundation (Foundation) was organized in December 1998 to create and implement programs to improve, enhance, augment, and/or enrich the educational purposes and processes of the District. The Foundation is a "related organization" of the District as defined by GASB. The District does not exercise oversight authority over the Foundation and it has not been included as a component unit of the District in these financial statements. Among the criteria used to determine whether the District had oversight responsibility included financial interdependency, selection of governing authority, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

F. Subsequent Events

On August 27, 2016, the voters of the District approved a Tax Ratification Election, whereby a portion of the District's property tax rate will be shifted from an assessment for Interest and Sinking to Maintenance and Operations with no change in the overall property tax rate. The tax swap of \$0.13 from Interest and Sinking to Maintenance and Operations allows the District to maximize State funding and generate additional State revenue.

No other events have occurred subsequent to June 30, 2016 that require adjustment to, or disclosure in, these financial statements.

Required Supplementary Information

**Sherman Independent School District
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016**

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5700 Local and Intermediate Sources	\$ 30,945,000	\$ 30,945,000	\$ 29,591,386	\$ (1,353,614)
5800 State Program Revenues	27,053,826	27,053,826	28,515,035	1,461,209
5900 Federal Program Revenues	435,000	435,000	1,022,541	587,541
5020 Total Revenues	<u>58,433,826</u>	<u>58,433,826</u>	<u>59,128,962</u>	<u>695,136</u>
Expenditures				
0011 Instruction	35,201,532	34,720,132	33,790,452	929,680
0012 Instructional Resources and Media Services	899,963	881,964	861,105	20,859
0013 Curriculum and Instructional Staff Development	683,036	672,521	653,187	19,334
0021 Instructional Leadership	841,587	785,902	763,854	22,048
0023 School Leadership	3,381,814	3,401,814	3,387,120	14,694
0031 Guidance, Counseling and Evaluation Services	1,743,200	1,742,201	1,731,651	10,550
0033 Health Services	715,926	775,926	762,832	13,094
0034 Student (Pupil) Transportation	2,160,251	2,043,851	1,959,266	84,585
0036 Extracurricular Activities	1,630,011	1,581,460	1,484,302	97,158
0041 General Administration	1,754,570	2,028,070	2,016,883	11,187
0051 Plant Maintenance and Operations	6,313,601	6,612,401	6,572,936	39,465
0052 Security and Monitoring Services	332,896	312,896	311,735	1,161
0053 Data Processing Services	978,743	1,093,743	1,078,400	15,343
0081 Facilities Acquisition and Construction	75,000	75,000	75,000	-
0099 Other Intergovernmental Charges	698,000	725,000	724,814	186
6030 Total Expenditures	<u>57,410,130</u>	<u>57,452,881</u>	<u>56,173,537</u>	<u>1,279,344</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,023,696</u>	<u>980,945</u>	<u>2,955,425</u>	<u>1,974,480</u>
Other Financing Sources (Uses)				
7912 Sale of Real or Personal Property	-	-	13,423	13,423
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>13,423</u>	<u>13,423</u>
1200 Net Change in Fund Balances	1,023,696	980,945	2,968,848	1,987,903
0100 Fund Balances - July 1 (Beginning)	<u>14,745,757</u>	<u>14,745,757</u>	<u>14,745,757</u>	<u>-</u>
3000 Fund Balances - June 30 (Ending)	<u>\$ 15,769,453</u>	<u>\$ 15,726,702</u>	<u>\$ 17,714,605</u>	<u>\$ 1,987,903</u>

**Sherman Independent School District
Schedule of the District's Proportionate Share of the Net
Pension Liability - Teachers Retirement System of Texas
Year Ended June 30, 2016**

Exhibit G-2

	2016	2015
District's Proportion of Net Pension Liability (Asset)	0.0434892%	0.0292032%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 15,372,853	\$ 7,800,579
State's Proportionate Share of the Net Pension Liability (Asset) Associated with Sherman Independent School District	24,150,807	20,857,908
Total	\$ 39,523,660	\$ 28,658,487
District's Covered-Employee Payroll	\$ 40,456,183	\$ 39,293,878
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	38.00%	19.85%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.43%	83.25%

Note: Only two years of data is presented in accordance with GASB #68, Paragraph 138. "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 -
Teachers Retirement System of Texas
Year Ended June 30, 2016**

	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 1,323,576	\$ 1,190,741
Contribution in Relation to the Contractually Required Contribution	<u>1,323,576</u>	<u>1,190,741</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 District's Covered-Employee Payroll	 \$ 41,873,622	 \$ 40,308,748
Contributions as a Percentage of Covered-Employee Payroll	3.16%	2.95%

Note: Only two years of data is presented in accordance with GASB #68, Paragraph 138. "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
Notes to Required Supplementary Information -
Teachers Retirement System of Texas
Year Ended June 30, 2016

Changes of benefit terms

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

Changes of assumptions

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

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional / longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

Other Schedules (Required by TEA)

**Sherman Independent School District
Schedule of Delinquent Taxes Receivable
Year Ended June 30, 2016**

Last Ten Years Ended June 30	Tax Rates		3 Assessed / Appraised Value for School Tax Purposes
	1 Maintenance	2 Debt Service	
2007 and prior years			
2008	1.04000	0.33000	\$ 2,053,850,320
2009	1.04000	0.40000	2,436,434,315
2010	1.04000	0.40000	2,299,178,397
2011	1.04000	0.40000	2,319,163,627
2012	1.04000	0.40000	2,309,618,851
2013	1.04000	0.40000	2,341,187,284
2014	1.04000	0.40000	2,344,417,869
2015	1.04000	0.40000	2,673,585,734
2016 (School year under audit)	1.04000	0.40000	2,774,702,778
1000	TOTALS		

10	20	31	32	40	50
Beginning Balance 07/01/2015	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 06/30/2016
\$ 487,580	\$ -	\$ 8,025	\$ 1,523	\$ (234,837)	\$ 243,195
58,365	-	3,852	1,222	(505)	52,786
72,750	-	3,928	1,511	(580)	66,731
109,053	-	4,057	1,561	(702)	102,733
129,648	-	4,785	1,840	(1,970)	121,053
119,551	-	15,615	6,006	(444)	97,486
137,871	-	21,392	8,228	(464)	107,787
189,697	-	34,353	13,212	(18,859)	123,273
786,634	-	847,123	325,816	592,112	205,807
-	39,955,720	28,117,598	10,814,461	29,430	1,053,091
\$ 2,091,149	\$ 39,955,720	\$ 29,060,728	\$ 11,175,380	\$ 363,181	\$ 2,173,942

**Sherman Independent School District
Budgetary Comparison Schedule
Child Nutrition Program
Year Ended June 30, 2016**

Exhibit J-4

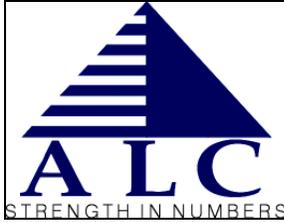
Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)	
	Original	Final			
Revenues					
5700	Local and Intermediate Sources	\$ 877,600	\$ 877,600	\$ 750,983	\$ (126,617)
5800	State Program Revenues	21,500	21,500	23,101	1,601
5900	Federal Program Revenues	3,504,600	3,504,600	3,527,579	22,979
5020	Total Revenues	<u>4,403,700</u>	<u>4,403,700</u>	<u>4,301,663</u>	<u>(102,037)</u>
Expenditures					
0035	Food Services	2,691,004	4,065,004	3,903,131	161,873
0051	Plant Maintenance and Operations	320,000	390,000	388,407	1,593
6030	Total Expenditures	<u>3,011,004</u>	<u>4,455,004</u>	<u>4,291,538</u>	<u>163,466</u>
1200	Net Change in Fund Balances	1,392,696	(51,304)	10,125	61,429
0100	Fund Balances - July 1 (Beginning)	<u>974,045</u>	<u>974,045</u>	<u>974,045</u>	<u>-</u>
3000	Fund Balances - June 30 (Ending)	<u>\$ 2,366,741</u>	<u>\$ 922,741</u>	<u>\$ 984,170</u>	<u>\$ 61,429</u>

**Sherman Independent School District
Budgetary Comparison Schedule
Debt Service Fund
Year Ended June 30, 2016**

Exhibit J-5

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5700 Local and Intermediate Sources	\$ 12,054,000	\$ 12,054,000	\$ 11,265,562	\$ (788,438)
5800 State Program Revenues	-	-	245,284	245,284
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>12,054,000</u>	<u>12,054,000</u>	<u>11,510,846</u>	<u>(543,154)</u>
Expenditures				
0071 Debt Service - Principal on Long-Term Debt	5,690,000	5,690,000	8,510,000	(2,820,000)
0072 Debt Service - Interest on Long-Term Debt	4,007,250	4,007,250	2,808,569	1,198,681
0073 Debt Service - Bond Issuance Costs and Fees	140,000	284,991	147,807	137,184
6030 Total Expenditures	<u>9,837,250</u>	<u>9,982,241</u>	<u>11,466,376</u>	<u>(1,484,135)</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,216,750</u>	<u>2,071,759</u>	<u>44,470</u>	<u>(2,027,289)</u>
Other Financing Sources (Uses)				
7911 Sale of Bonds	-	9,205,000	9,205,000	-
7916 Premium or Discount on Issuance of Bonds	-	791,203	791,203	-
8940 Payment to Bond Refunding Escrow Agent	-	(9,851,212)	(9,851,212)	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>144,991</u>	<u>144,991</u>	<u>-</u>
1200 Net Change in Fund Balances	2,216,750	2,216,750	189,461	(2,027,289)
0100 Fund Balances - July 1 (Beginning)	<u>6,074,693</u>	<u>6,074,693</u>	<u>6,074,693</u>	<u>-</u>
3000 Fund Balances - June 30 (Ending)	<u>\$ 8,291,443</u>	<u>\$ 8,291,443</u>	<u>\$ 6,264,154</u>	<u>\$ (2,027,289)</u>

FEDERAL AWARDS SECTION



ADAMI, LINDSEY & COMPANY, L.L.P.
Certified Public Accountants

123 NORTH CROCKETT STREET, SUITE 100
SHERMAN, TEXAS 75090

DAROLD P. ADAMI
JAMES A. LINDSEY
DAROLD P. ADAMI, JR.
BELINDA W. DEVINCENTIS
TIMOTHY D. TARABA

(903) 892-2727
FACSIMILE: (903) 868-9682
www.adamilindsey.com

**Independent Auditor's 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***

Board of Trustees
Sherman Independent School District
2701 Loy Lake Road
Sherman, Texas 75090

Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Sherman Independent School District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2016.

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 entity'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.

Board of Trustees
November 11, 2016

Compliance and Other Matters

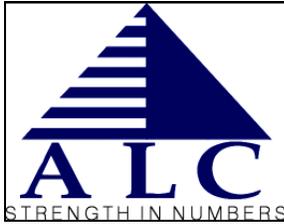
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Adami, Lindsey & Company, L.L.P.

Sherman, Texas
November 11, 2016



ADAMI, LINDSEY & COMPANY, L.L.P.
Certified Public Accountants

123 NORTH CROCKETT STREET, SUITE 100
SHERMAN, TEXAS 75090

DAROLD P. ADAMI
JAMES A. LINDSEY
DAROLD P. ADAMI, JR.
BELINDA W. DEVINCENTIS
TIMOTHY D. TARABA

(903) 892-2727
FACSIMILE: (903) 868-9682
www.adamilindsey.com

**Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control over
Compliance Required by the Uniform Guidance**

Board of Trustees
Sherman Independent School District
2701 Loy Lake Road
Sherman, Texas 75090

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Sherman Independent School District (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is 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 the 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 the 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 the District's compliance.

Opinion of Each Major Federal Program

In our opinion, the 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, 2016.

Report on Internal Control over Compliance

Management of the 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 the 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 the 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 significant deficiencies or material weaknesses. 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. We did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Item 2016-1, that we consider to be a significant deficiency.

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.

Adami, Lindsey & Company, L.L.P.

Sherman, Texas
November 11, 2016

**Sherman Independent School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified opinion
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Major Federal Programs:	
Special Education Cluster	
Special Education - Grants to States (IDEA, Part B)	CFDA #84.027
Special Education - Preschool Grants (IDEA Preschool)	CFDA #84.173
Head Start	CFDA #93.600
Dollar threshold used to distinguish between type A and type B federal programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II -- Findings Related to Financial Statements

None

(Continued)

**Sherman Independent School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section III -- Findings and Questioned Costs Related to Federal Awards

Finding 2016-1

Special Education Cluster (CFDA #84.027 and CFDA #84.173)

Allowable Costs and Cost Principles - Significant Deficiency in Controls over Compliance

Criteria - Federal regulations require entities receiving federal funds to maintain internal control over federal programs in order to provide reasonable assurance that federal awards are managed in compliance with laws, regulations, and the provisions of contracts or agreements that could have a material effect on its federal programs. Additionally, entities are to assume responsibility for administering federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the federal awards and that, among other things for costs to be allowable under federal guidelines, they must be adequately documented.

Condition - Certain personnel costs, including benefits, were recorded in the federal grant and were included in expenditures reported to the grantor. The employees to whom this compensation was paid had no responsibilities or duties related to the federal grant.

Cause - An error by the Human Resources Department incorrectly changed the general ledger coding for this compensation from the General Fund to the federal grant. Procedures performed by District staff, including the Business Office and grant manager, did not discover the error.

Perspective - During our review, which included 33 items charged to the federal grant, we noted two instances of assignment stipends for bilingual teachers coded to the federal grant. Further research by District staff identified a total of 23 employees for whom the assignment stipend was incorrectly posted to the federal grant. The administration has represented that the District has other allowable costs that it has substituted and recorded in its financial records and included in the final reporting to the grantor.

Questioned Costs - None

Effect - The failure to identify unallowable costs charged to the federal program could have led to moneys having to be repaid to the grantor (if substituted costs were not identified).

Recommendation - Ensure that established procedures for the review of personnel costs charged to federal programs be conducted by the Human Resources Department, Business Office and grant manager.

View of Responsible Officials - See corrective action plan.

**Sherman Independent School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section IV -- Corrective Action Plan

Finding 2016-1

Responsible Party - Assistant Superintendent of Finance and Operations

Management Response - The District acknowledges the finding.

Corrective Action - The District will engage in a three-step process as it relates to coding of personnel salaries, benefits and stipends for special programs (i.e., Special Education, Title I, Bilingual Education, Gifted and Talented, etc.):

1. The Human Resources Department identifies and inputs the appropriate account coding of personnel salaries, benefits and stipends based on job responsibilities. Verification of appropriate coding should be based on job responsibilities / description and, as appropriate, class schedules.
2. The program lead or director will verify the appropriate account coding of personnel salaries, benefits and stipends two times per year, during the fall and spring. If it is determined that coding has been assigned incorrectly, the program lead or director will request a change to be made by the Human Resources Department to the appropriate account code. The program lead or director will also apprise the Business Office of the change request.
3. The Business Office will establish a year-end certification process for special program leads and directors to confirm appropriate account coding of personnel salaries, benefits and stipends. This certification process will be completed prior to June 30 of each year.

Expected Completion Date - December 2016

**Sherman Independent School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

Exhibit K-1

(1) Federal Grantor / Pass-Through Grantor / Program or Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Programs:			
Indian Education	84.060A		\$ 54,831
Passed Through Texas Education Agency:			
Title 1, Part A - Improving Basic Programs (2014-2015)	84.010A	15610101091906	18,432
Title 1, Part A - Improving Basic Programs (2015-2016)	84.010A	16610101091906	1,504,339
Title 1, Part D, Subpart 2 - Delinquent Programs	84.010A	15610103091906	1,493
Title 1, Part D, Subpart 2 - Delinquent Programs	84.010A	16610103091906	115,883
Total CFDA Number 84.010A			<u>1,640,147</u>
Passed Through Texas Education Agency:			
IDEA-B Formula (2014-2015) **	84.027A	156600010919066600	23,890
IDEA-B Formula (2015-2016) **	84.027A	166600010919066600	1,345,865
IDEA-B Formula, Deaf (2014-2015) **	84.027A	156600010919066601	4,060
IDEA-B Formula, Deaf (2015-2016) **	84.027A	166600010919066601	5,244
IDEA-B Discretionary (Deaf) (2015-2016) **	84.027A	166600110919066673	5,552
Total CFDA Number 84.027A			<u>1,384,611</u>
Passed Through Texas Education Agency:			
Title II Part A Teacher / Principal Training (2014-2015)	84.367A	15694501091906	20,068
Title II Part A Teacher / Principal Training (2015-2016)	84.367A	16694501091906	297,804
Total CFDA Number 84.367A			<u>317,872</u>
Passed Through Texas Education Agency:			
Vocational Education Basic Grant (2015-2016)	84.048A	16420006091906	80,981
Total CFDA Number 84.048A			<u>80,981</u>
Passed Through Texas Education Agency:			
Title III, Part A Limited English Proficiency (2014-2015)	84.365A	15671001091906	20,594
Title III, Part A Limited English Proficiency (2015-2016)	84.365A	16671001091906	97,236
Total CFDA Number 84.365A			<u>117,830</u>
Passed Through Texas Education Agency:			
IDEA-B Preschool (2015-2016) **	84.173A	166610010919066610	38,441
IDEA-B Preschool, Deaf (2015-2016) **	84.173A	166610010919066611	2,724
Total CFDA Number 84.173A			<u>41,165</u>
Passed Through Texas Education Agency:			
Grants for State Assessments and Related Activities	84.369A	69551502	58,173
Total CFDA Number 84.369A			<u>58,173</u>
Passed Through Region X Education Service Center:			
Education for Homeless Children and Youth (2014-2015)	84.196	15-051	29,016
Education for Homeless Children and Youth (2015-2016)	84.196	16-055	39,515
Total CFDA Number 84.196			<u>68,531</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 3,764,141</u>

Continued

**Sherman Independent School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

(1) Federal Grantor / Pass-Through Grantor / Program Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Region X Education Service Center:			
Head Start (2014-2015)	93.600	06CH7092	\$ 10,643
Head Start (2015-2016)	93.600	06CH7092	289,731
Total CFDA Number 93.600			<u>300,374</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 300,374</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Education Agency:			
National School Lunch Program * (2014-2015)	10.555	71301501	\$ 356,766
National School Lunch Program * (2015-2016)	10.555	71301601	1,944,866
Passed Through Texas Department of Human Services:			
USDA Commodities (Noncash)	10.555		276,082
Total CFDA Number 10.555			<u>2,577,714</u>
Passed Through Texas Education Agency:			
National School Breakfast Program * (2014-2015)	10.553	71401501	144,164
National School Breakfast Program * (2015-2016)	10.553	71401601	805,702
Total CFDA Number 10.553			<u>949,866</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 3,527,580</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 7,592,095</u>

* Indicates child nutrition clustered programs.

** Indicates special education clustered programs.

Notes to Expenditures of Federal Awards

Note 1 The District utilizes the funds types specified in the 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.

Note 2 The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All federal grant funds were accounted for in the Special Revenue Funds, a component of the Governmental fund types, except for indirect costs funded by federal grants, which are recorded in the General Fund. Medicaid reimbursements (School Health and Related Services (SHARS) program for special education students) are recorded in the General Fund as Federal revenue but do not meet the definition of federal awards for purposes of preparing the schedule of federal awards.

The modified accrual basis of accounting is used for the Governmental Funds. This basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred.

Federal grants 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 unearned revenue until earned.

Note 3 The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project extended 90 days beyond the federal project period ending date, in accordance with provisions in Compliance Supplement, Part 3, Section H - Period of Performance.

Note 4 All of the ESEA, Title I Part A expenditures are for school-wide programs.

Note 5 Reconciliation of Federal Revenues in Exhibit C-3 to the Schedule of Expenditures of Federal Awards:

Federal Awards per Schedule of Expenditures of Federal Awards	\$ 7,592,095
Medicaid Reimbursements (SHARS)	1,022,541
Total Federal Program Revenues - Exhibit C-3	<u>\$ 8,614,636</u>