

Sherman Independent School District

Annual Financial Report

Year Ended June 30, 2014

**Sherman Independent School District
Annual Financial Report
Year Ended June 30, 2014**

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Sherman Independent School District
Name of School District

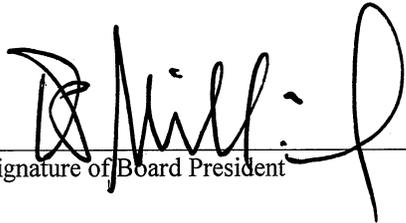
Grayson
County

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, 2014, at a meeting of the Board of Trustees of such school district on the 17th day of November 2014.



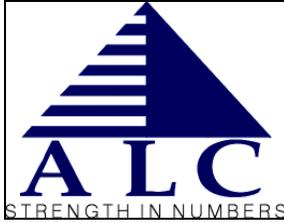
Signature of Board Secretary



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

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, 2014, 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, 2014, 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 and budgetary comparison information on pages 4 through 9 and 34 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 information is 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 4, 2014, 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 4, 2014

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, 2014. 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 exceeded its liabilities by \$25,180,952 at June 30, 2014. This amount is based on full accrual accounting, as required by Governmental Accounting Standards Board (GASB) Statement 34. Most of this amount (\$14,332,339 or 57%) may be used to meet the District’s ongoing obligations.
- The District’s governmental funds reported combined ending fund balances of \$21,226,542 at June 30, 2014, using the modified accrual basis of accounting. The District has spending discretion over approximately sixty percent (60%) of total fund balances (\$12,756,092 of \$21,226,542), reported as nonspendable, restricted, committed, assigned, and unassigned.
- In the General Fund, the District had unreserved, undesignated fund balance of \$12,756,092 at June 30, 2014. This amount represents twenty-five percent (25%) of total general fund expenditures (\$50,592,458). The General Fund averaged expenditures of \$4,216,038 per month during the 2013-14 fiscal year; therefore, this fund balance (\$12,901,394) represents approximately three (3) months of expenditures.

In May 2006, the Texas State Legislature passed legislation known as House Bill One (HB One), relating to public school finance, property tax relief, salary increases, school calendar changes, and public school accountability. HB One required districts to “compress” their local maintenance and operations (M&O) tax rate incrementally over the 2006-07 and 2007-08 school years. In 2006-07, school districts compressed their tax rates to 88.67% of their 2005 tax rate. In 2007-08, districts again compressed their tax rates to 66.67% of their 2005 tax rate. HB One created additional state revenues (expansion of the business franchise tax) to partially offset the loss of local property tax revenues to school districts.

As a result, the District’s property tax rates (per \$100 valuation) have not changed during the last seven years. The following chart present the tax rates for the last seven years:

Fiscal Year	Maintenance and Operations	Debt Service	Total Tax Rate
2008-09	1.04	0.40	1.44
2009-10	1.04	0.40	1.44
2010-11	1.04	0.40	1.44
2011-12	1.04	0.40	1.44
2012-13	1.04	0.40	1.44
2013-14	1.04	0.40	1.44
2013-14	1.04	0.40	1.44

In September 2014, the District received the Schools FIRST (Financial Integrity Rating System of Texas) Rating for the 2012-13 fiscal year. The District received a superior achievement rating for the 2012-13 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 twenty indicators and four possible ratings – superior achievement, above standard achievement, standard achievement, and substandard achievement.

An electricity generating plant located in the District was completed in 2014. The plant will substantially increase the overall tax base for the district. Modest growth continues in retail stores, restaurants, apartments, and a small number of houses. The District collects a higher percentage of property taxes from commercial businesses than many school districts.

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 34, 38, and 39 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 - 33 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 page 34 of this report; other schedules required by the Texas Education Agency can be found on pages 35 - 38 of this report.

Net Position

Net position can measure a government's financial position over time. The District's assets and deferred outflows of resources exceeded liabilities by \$25,180,952 as of June 30, 2014, an increase of \$4,000,815 from the previous year (after restatement).

<i>(rounded to millions)</i>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 27.3	\$ 24.4
Capital assets	<u>103.4</u>	<u>106.4</u>
Total assets	<u>130.7</u>	<u>130.7</u>
Deferred outflows of resources	<u>2.9</u>	<u>3.5</u>
Other liabilities	5.5	4.6
Long-term liabilities	<u>102.9</u>	<u>108.4</u>
Total liabilities	<u>108.4</u>	<u>113.0</u>
Net position:		
Invested in capital assets, net of related debt	7.0	5.6
Restricted	3.9	2.9
Unrestricted	<u>14.3</u>	<u>12.7</u>
Total net position	<u>\$ 25.2</u>	<u>\$ 21.2</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 (\$3,869,896 or 21%) is subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$14,332,339 or 79%) can be used to meet the District's ongoing obligations. 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 \$4,000,815 during the 2013-14 fiscal year. The total cost of all governmental activities was \$67,081,160. Our taxpayers paid \$33,183,304 or forty-nine percent (49%) of these activities.

Changes in Net Position

<i>(rounded to thousands)</i>	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services	\$ 1,082	\$ 1,046
Operating grants, contributions	11,761	12,093
General revenues:		
Property taxes	33,183	33,128
State aid	22,801	19,419
Investment income	8	18
Other	<u>2,247</u>	<u>2,262</u>
Total revenues	<u>71,082</u>	<u>67,966</u>
Expenses:		
Instruction	36,038	34,310
Instructional resources and media services	1,689	1,046
Curriculum and staff development	734	683
Instructional leadership	641	677
School leadership	3,097	2,981
Guidance, counseling and evaluation	2,190	2,188
Health services	668	633
Student transportation	1,635	1,732
Food services	3,639	3,498
Co-curricular/extracurricular activities	1,730	1,532
General administration	2,021	1,594
Plant maintenance and operations	6,290	6,365
Security and monitoring services	254	222
Data processing services	1,432	2,110
Community services	18	20
Debt service-interest	4,006	3,960
Debt service-bond issuance cost and fees	168	665
Facilities acquisition and construction	179	69
Intergovernmental charges	<u>652</u>	<u>661</u>
Total expenses	<u>67,081</u>	<u>64,946</u>
Increase in net position	4,001	3,021
Beginning net position	<u>21,180</u>	<u>18,159</u>
Ending net position	<u>\$ 25,181</u>	<u>\$ 21,180</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 fund – 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 unreserved, undesignated 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, 2014, the District's governmental funds reported combined fund balances of \$21,226,542 an increase of \$2,600,132. Unassigned fund balance represents a large portion of total fund balances (\$12,756,092 or 60%) 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 (\$8,470,450 or 40%) is not available for new spending because it has already been restricted or committed for inventory, debt retirement, food service, and unspent incentive grants.

The General Fund is the primary operating fund of the District. At June 30, 2014, the General Fund had unassigned fund balances of \$12,756,092 and total fund balances of \$12,901,394. As a measure of the General Fund's liquidity, it is useful to compare both fund balance amounts to total fund expenditures (\$50,592,458). Unassigned fund balance and total fund balance represent twenty-five percent (25%) and twenty-six percent (26%) of total General Fund expenditures, respectively. The unassigned fund balance represents approximately three months of annual General Fund expenditures.

Total fund balance increased by \$1,820,417 in the General Fund during the current fiscal year. Key factors related to this change include:

- The final budget included revenues of \$52,396,980 and expenditures of \$50,592,458 a difference of \$1,820,417.

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 \$638,380) as follows:

- Purchase of Property (\$75,000).
- Increase in CTE Expenditures (\$284,780).
- Facilities and Improvements (\$229,000).
- Increase in Internet & Telecommunications (\$49,600).

Capital Asset and Debt Administration

Capital assets – The District's investment in capital assets for its governmental activities at June 30, 2014, totaled \$103,362,376 (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 pages 25- 26 of this report. The District had the following capital assets at June 30, 2014 and 2013:

<i>(rounded to thousands)</i>	<u>2014</u>	<u>2013</u>
Land	\$ 3,504	\$ 3,439
Buildings and improvements, net	94,402	96,991
Furniture and equipment, net	<u>5,456</u>	<u>5,930</u>
Total (historical cost)	<u>\$ 103,362</u>	<u>\$ 106,360</u>

Long-term debt – At June 30, 2014, the District had total bonded debt outstanding of \$88,012,779, a decrease of \$4,290,745 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 five percent 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 5.4 percent in June 2014. The current rate is slightly higher than the overall State of Texas’ unemployment rate of 5.1 percent.
- The District’s combined tax rate was \$1.44 per \$100 of assessed property value in the 2013-14 fiscal year. The combined tax rate will remain at \$1.44 for next year (2014-15 fiscal year).
- The local certified property values at January 1, 2014 are estimated at \$2,679,772,475. The District’s property values per student stayed below the threshold (\$319,500) for Chapter 41 payments (Robin Hood). Using the 2013 property value study, the State Comptroller calculated taxable values (after exemptions) of \$2,344,417,869 (T2 value).
- The District’s student attendance rate in 2013-14 was slightly lower (95.6%) than the previous year (95.8%).

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, P.O. Box 1176, Sherman, Texas 75091-1176.

Basic Financial Statements

Sherman Independent School District
Statement of Net Position
June 30, 2014

Exhibit A-1

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and Cash Equivalents	\$ 4,550,054
1120	Current Investments	12,721,579
1220	Property Taxes Receivable (Delinquent)	2,081,971
1230	Allowance for Uncollectible Taxes	(248,968)
1240	Due from Other Governments	7,913,174
1290	Other Receivables	3,065
1300	Inventories - Supplies and Materials	145,302
1410	Prepayments	182,351
	Capital Assets:	
1510	Land	3,504,463
1520	Buildings and Improvements (Net)	94,402,103
1530	Furniture and Equipment (Net)	5,455,810
1000	Total Assets	130,710,904
	Deferred Outflows of Resources	
1701	Deferred Charge on Refunding	2,937,340
	Total Deferred Outflows of Resources	2,937,340
	Liabilities	
2110	Accounts Payable	755,703
2140	Accrued Interest Payable	1,068,255
2150	Payroll Deduction and Withholdings Payable	534,838
2160	Accrued Wages Payable	2,831,965
2300	Unearned Revenues	326,811
	Long-Term Liabilities:	
2501	Due Within One Year	6,843,809
2502	Due in More Than One Year	96,105,911
2000	Total Liabilities	108,467,292
	Net Position	
3200	Invested in Capital Assets, Net of Related Debt	6,978,717
	Restricted for:	
3820	Federal and State Programs	1,092,465
3850	Debt Service	2,777,431
3900	Unrestricted	14,332,339
3000	Total Net Position	\$ 25,180,952

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

**Sherman Independent School District
Statement of Activities
Year Ended June 30, 2014**

Exhibit B-1

Data Control Codes		Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
Governmental Activities					
11	Instruction	\$ 36,037,963	\$ 185,350	\$ 5,753,953	\$ (30,098,660)
12	Instructional Resources and Media Services	1,689,078	-	73,146	(1,615,932)
13	Curriculum and Instructional Staff Development	734,255	-	312,367	(421,888)
21	Instructional Leadership	641,106	-	83,826	(557,280)
23	School Leadership	3,096,684	-	166,826	(2,929,858)
31	Guidance, Counseling and Evaluation Services	2,189,992	-	741,450	(1,448,542)
33	Health Services	667,594	-	34,943	(632,651)
34	Student (Pupil) Transportation	1,635,008	-	66,835	(1,568,173)
35	Food Services	3,639,115	661,066	3,466,146	488,097
36	Extracurricular Activities	1,730,260	150,701	66,326	(1,513,233)
41	General Administration	2,021,443	-	90,226	(1,931,217)
51	Facilities Maintenance and Operations	6,290,290	85,043	531,019	(5,674,228)
52	Security and Monitoring Services	254,159	-	2,349	(251,810)
53	Data Processing Services	1,431,462	-	353,185	(1,078,277)
61	Community Services	18,155	-	18,155	-
72	Debt Service - Interest on Long-Term Debt	4,006,155	-	-	(4,006,155)
73	Debt Service - Bond Issuance Costs and Fees	167,440	-	-	(167,440)
81	Facilities Acquisition and Construction	179,215	-	-	(179,215)
99	Other Intergovernmental Charges	651,787	-	-	(651,787)
	Total Governmental Activities	<u>\$ 67,081,161</u>	<u>\$ 1,082,160</u>	<u>\$ 11,760,752</u>	<u>(54,238,249)</u>
General Revenues					
Taxes:					
MT	Property Taxes - Levied for General Purposes				23,991,700
DT	Property Taxes - Levied for Debt Service				9,191,604
SF	State Aid and Federal Formula Grants				22,800,851
IE	Investment Earnings				8,016
MI	Miscellaneous Local and Intermediate Revenue				2,246,893
TR	Total General Revenues and Extraordinary Items				<u>58,239,064</u>
CN	Change in Net Position				4,000,815
NB	Net Position - Beginning of Year				<u>21,180,137</u>
NE	Net Position - End of Year				<u>\$ 25,180,952</u>

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

**Sherman Independent School District
Balance Sheet - Governmental Funds
June 30, 2014**

Exhibit C-1

Data Control Codes	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Assets				
1110 Cash and Cash Equivalents	\$ 4,390,219	\$ -	\$ 159,835	\$ 4,550,054
1120 Current Investments	6,630,796	6,090,783	-	12,721,579
1220 Property Taxes Receivable (Delinquent)	1,625,882	456,089	-	2,081,971
1230 Allowance for Uncollectible Taxes	(192,034)	(56,934)	-	(248,968)
1240 Due from Other Governments	6,894,698	-	1,018,476	7,913,174
1260 Due from Other Funds	620,218	909,137	1,751,456	3,280,811
1290 Other Receivables	622	-	643	1,265
1300 Inventories	145,302	-	-	145,302
1000 Total Assets	<u>\$ 20,115,703</u>	<u>\$ 7,399,075</u>	<u>\$ 2,930,410</u>	<u>\$ 30,445,188</u>
Liabilities				
2110 Accounts Payable	\$ 476,358	\$ -	\$ 279,345	\$ 755,703
2150 Payroll Deductions and Withholdings	476,442	-	58,396	534,838
2160 Accrued Wages Payable	2,416,148	-	415,817	2,831,965
2170 Due to Other Funds	2,660,593	-	618,418	3,279,011
2300 Unearned Revenues	-	-	326,811	326,811
2000 Total Liabilities	<u>6,029,541</u>	<u>-</u>	<u>1,698,787</u>	<u>7,728,328</u>
Deferred Inflows of Resources				
2601 Unavailable Revenue - Property Taxes	1,184,768	305,550	-	1,490,318
2500 Total Deferred Inflows of Resources	<u>1,184,768</u>	<u>305,550</u>	<u>-</u>	<u>1,490,318</u>
Fund Balances				
Nonspendable Fund Balances:				
3410 Inventories	145,302	-	-	145,302
Restricted Fund Balances:				
3450 Federal or State Funds Grant	-	-	1,092,465	1,092,465
3480 Retirement of Long-Term Debt	-	7,093,525	-	7,093,525
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	139,158	139,158
3600 Unassigned Fund Balance	12,756,092	-	-	12,756,092
3000 Total Fund Balances	<u>12,901,394</u>	<u>7,093,525</u>	<u>1,231,623</u>	<u>21,226,542</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 20,115,703</u>	<u>\$ 7,399,075</u>	<u>\$ 2,930,410</u>	<u>\$ 30,445,188</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, 2014**

Exhibit C-2

Total Fund Balances - Governmental Funds	\$ 21,226,542
Capital assets of \$152,214,630 net of accumulated depreciation of \$48,852,254, are not financial resources and, therefore, are not reported in governmental funds. See Note III D for details.	103,362,376
Long-term liabilities of \$102,949,720, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. See Note III F for details.	(102,949,720)
Deferred outflows of resources of \$2,937,340 are not financial resources and, therefore, are not reported in governmental funds. See Note III I for details.	2,937,340
Various other items are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including 1) unavailable revenues of \$1,490,318 recognized as revenues; 2) accrued interest payable of \$1,068,255 recognized as a liability; and 3) prepaid expenditures of \$182,351 recorded as an asset.	<u>604,414</u>
Net Position of Governmental Activities	<u><u>\$ 25,180,952</u></u>

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, 2014

Exhibit C-3

Data Control Codes	General Fund	Debt Service Fund	Other Funds	Total Governmental Funds
Revenues				
5700 Local and Intermediate Sources	\$ 24,709,935	\$ 9,370,843	\$ 1,633,054	\$ 35,713,832
5800 State Program Revenues	26,859,915	-	598,719	27,458,634
5900 Federal Program Revenues	827,130	-	7,358,001	8,185,131
5020 Total Revenues	<u>52,396,980</u>	<u>9,370,843</u>	<u>9,589,774</u>	<u>71,357,597</u>
Expenditures				
Current:				
0011 Instruction	30,483,265	-	4,091,220	34,574,485
0012 Instructional Resources and Media Services	742,640	-	36,657	779,297
0013 Curriculum and Instructional Staff Development	445,573	-	288,672	734,245
0021 Instructional Leadership	587,073	-	53,992	641,065
0023 School Leadership	2,949,941	-	-	2,949,941
0031 Guidance, Counseling and Evaluation Services	1,532,853	-	657,012	2,189,865
0033 Health Services	667,380	-	172	667,552
0034 Student (Pupil) Transportation	1,821,374	-	-	1,821,374
0035 Food Services	-	-	3,466,146	3,466,146
0036 Extracurricular Activities	1,614,627	-	28,957	1,643,584
0041 General Administration	1,586,766	-	25,020	1,611,786
0051 Plant Maintenance and Operations	5,980,617	-	369,106	6,349,723
0052 Security and Monitoring Services	254,138	-	-	254,138
0053 Data Processing Services	990,567	-	320,821	1,311,388
0061 Community Services	-	-	18,155	18,155
Debt Service:				
0071 Debt Service - Principal on Long-Term Debt	-	4,290,745	-	4,290,745
0072 Debt Service - Interest on Long-Term Debt	-	4,366,787	-	4,366,787
0073 Debt Service - Bond Issuance Cost and Fees	-	167,440	-	167,440
Capital Outlay:				
0081 Facilities Acquisition and Construction	283,857	-	-	283,857
Intergovernmental:				
0099 Other Intergovernmental Charges	651,787	-	-	651,787
6030 Total Expenditures	<u>50,592,458</u>	<u>8,824,972</u>	<u>9,355,930</u>	<u>68,773,360</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,804,522</u>	<u>545,871</u>	<u>233,844</u>	<u>2,584,237</u>
Other Financing Sources (Uses)				
7912 Sale of Real or Personal Property	15,895	-	-	15,895
Total Other Financing Sources (Uses)	<u>15,895</u>	<u>-</u>	<u>-</u>	<u>15,895</u>
1200 Net Change in Fund Balances	1,820,417	545,871	233,844	2,600,132
0100 Fund Balances - July 1 (Beginning)	<u>11,080,977</u>	<u>6,547,654</u>	<u>997,779</u>	<u>18,626,410</u>
3000 Fund Balances - June 30 (Ending)	<u>\$ 12,901,394</u>	<u>\$ 7,093,525</u>	<u>\$ 1,231,623</u>	<u>\$ 21,226,542</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, 2014

Exhibit C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 2,600,132
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. See Note III D for details.	868,645
Proceeds from the sale of capital assets in the current year are reported as an other financing source in the fund financial statements, but are reported at the amount of the gain (proceeds less basis in property sold) in the government-wide financial statements.	(11,000)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(3,854,769)
Long-term debt principal payments are expenditures in the fund financial statements, but they are shown as reductions in long-term debt in the government-wide financial statements. See Note III F for details.	4,091,559
Interest accreted on the District's capital appreciation bonds (net of amounts paid) is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	868,553
Various other items are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including changes in: 1) unavailable revenue (property taxes) of \$(280,516); 2) accrued interest payable of \$(308,735); 3) prepaid expenditures of \$47,335; and 4) accrued compensated absences of \$(20,389).	(562,305)
Change in Net Position of Governmental Activities	\$ 4,000,815

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

**Sherman Independent School District
Statement of Net Position
Fiduciary Funds
June 30, 2014**

Exhibit E-1

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and Cash Equivalents	\$ -	\$ 154,824
Current Investments	35,922	-
Total Assets	35,922	\$ 154,824
Liabilities		
Due to Other Funds	\$ 1,800	\$ -
Due to Student Groups	-	154,824
Total Liabilities	1,800	\$ 154,824
Net Position		
Restricted for Scholarships	34,122	
Total Net Position	\$ 34,122	

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, 2014**

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Local and Intermediate Source	\$ 82
Total Additions	82
Deductions	
Other Operating Costs	1,800
Total Deductions	1,800
Change in Net Position	(1,718)
Total Net Position - July 1 (Beginning)	35,840
Total Net Position - June 30 (Ending)	\$ 34,122

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

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

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, 2014

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) invested in capital assets net of related debt, 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, 2014

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, 2014

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, 2014

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.

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

None of the District's funds have expenditures that exceeded their budgeted appropriations during the year ended June 30, 2014.

C. Deficit Fund Equity

None of the District's funds have deficit fund equity as of June 30, 2014.

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

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, 2014, the District's deposits are not exposed 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, 2014, 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, 2014, 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, 2014, the District's investments are not subject to concentration of credit risk.

The District's investments at June 30, 2014 are shown below:

Name	Cost	Fair Value	Credit Rating	Maturity
Pooled Investments:				
Texpool	\$ 5,829,696	\$ 5,829,754	AAAm	< 1 Year
Lone Star Investment Pool	6,890,566	6,891,552	AAA	< 1 Year
TexSTAR	268	268	AAAm	< 1 Year
LOGIC	5	5	AAA	< 1 Year
Total Investments	<u>\$ 12,720,535</u>	<u>\$ 12,721,579</u>		

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

Receivables as of June 30, 2014 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	\$ 1,625,882	\$ 456,089	\$ -	\$ 2,081,971
Due from Other Governments	6,894,698	-	1,018,476	7,913,174
Other Receivables	622	-	643	1,265
Total Receivables	8,521,202	456,089	1,019,119	9,996,410
Allowance for Uncollectible Accounts	(192,034)	(56,934)	-	(248,968)
Net Receivables	\$ 8,329,168	\$ 399,155	\$ 1,019,119	\$ 9,747,442

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, 2014 are summarized below. Most federal grants are passed through the Texas Education Agency.

Fund	State Entitlements	Federal Grants	State Grants	Other	Total
General Fund	\$ 6,800,238	\$ -	\$ -	\$ 94,460	\$ 6,894,698
Special Revenue Funds	-	985,392	15,444	17,640	1,018,476
Total	\$ 6,800,238	\$ 985,392	\$ 15,444	\$ 112,100	\$ 7,913,174

C. Interfund Receivables, Payables and Transfers

Interfund balances at June 30, 2014 consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Special Revenue Funds (various)	\$ 598,335	Pooled Cash Overdraft
General Fund	Special Revenue Funds (various)	20,083	Miscellaneous
General Fund	Permanent Fund	1,800	Other Reimbursements
Special Revenue Funds (various)	General Fund	1,751,456	Pooled Cash Allocations
Debt Service Fund	General Fund	909,137	Other Reimbursements
		\$ 3,280,811	

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

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS (continued)

D. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Capital Assets Not Being Depreciated				
Land	\$ 3,439,169	\$ 65,294	\$ -	\$ 3,504,463
Total Capital Assets Not Being Depreciated	<u>3,439,169</u>	<u>65,294</u>	<u>-</u>	<u>3,504,463</u>
Capital Assets Being Depreciated				
Buildings and Improvements	130,358,833	78,636	-	130,437,469
Furniture and Equipment	17,962,347	724,715	(414,364)	18,272,698
Total Capital Assets Being Depreciated	<u>148,321,180</u>	<u>803,351</u>	<u>(414,364)</u>	<u>148,710,167</u>
Less Accumulated Depreciation				
Buildings and Improvements	(33,368,140)	(2,667,226)	-	(36,035,366)
Furniture and Equipment	(12,032,709)	(1,187,543)	403,364	(12,816,888)
Total Accumulated Depreciation	<u>(45,400,849)</u>	<u>(3,854,769)</u>	<u>403,364</u>	<u>(48,852,254)</u>
Net Capital Assets Being Depreciated	<u>102,920,331</u>	<u>(3,051,418)</u>	<u>(11,000)</u>	<u>99,857,913</u>
Governmental Capital Assets, Net	<u>\$106,359,500</u>	<u>\$ (2,986,124)</u>	<u>\$ (11,000)</u>	<u>\$103,362,376</u>

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

Instruction	\$ 1,568,891
Instructional Resources and Media Services	281,398
School Leadership	107,934
Student (Pupil) Transportation	227,431
Food Services	111,788
Extracurricular Activities	146,481
General Administration	92,514
Plant Maintenance and Operations	408,606
Data Processing Services	909,726
Total Depreciation Expense	<u>\$ 3,854,769</u>

E. Unearned Revenue

Governmental funds delay revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2014, the various components of *unearned revenue* reported in the governmental funds were as follows:

Contributions and Gifts	\$ 171,435
Federal / State Grants	112,403
Cafeteria Sales	11,650
Other Local Revenues	31,323
Total	<u>\$ 326,811</u>

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Obligations

The following schedule indicates the changes in long-term debt during the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Due Within One Year
Bonds Payable					
Carrying Value	\$ 92,303,524	\$ -	\$ 4,290,745	\$ 88,012,779	\$ 5,713,763
Unamortized Premium (Discout)	6,084,966	-	329,858	5,755,108	329,858
Total Bonds Payable	98,388,490	-	4,620,603	93,767,887	6,043,621
Accreted Interest Payable	9,975,053	935,702	1,804,255	9,106,500	724,855
Vested Sick Leave Benefits	54,944	89,583	69,194	75,333	75,333
Totals	<u>\$ 108,418,487</u>	<u>\$ 1,025,285</u>	<u>\$ 6,494,052</u>	<u>\$ 102,949,720</u>	<u>\$ 6,843,809</u>

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, 2014 was \$4,006,157; all of this amount was charged to expense in the statement of activities. Liquidations of vested sick leave benefits are accounted for in the General Fund.

1. Bonds Payable

The following is a summary of the District's bonds outstanding as of June 30, 2014:

Issue	Interest Rates	Final Maturity	Amounts Original Issue	Amounts Outstanding July 1, 2013	Issued	Retired / Refunded	Amounts Outstanding June 30, 2014
School Building and Refunding Bonds, Series 1995A	5.75 - 7.90%	2022	\$ 24,395,012	\$ 2,706,313	\$ -	\$ 349,622	\$ 2,356,691
Refunding Bonds, Series 1996	3.25 - 5%	2015	19,978,116	540,275	-	540,275	-
Refunding Bonds, Series 1998	3.8 - 5%	2025	11,696,357	2,956,357	-	-	2,956,357
Refunding Bonds, Series 2004	1.45 - 4.7%	2025	3,226,680	2,130,000	-	160,000	1,970,000
School Building and Refunding Bonds, Series 2006A	4 - 5%	2033	67,705,994	14,820,847	-	1,115,848	13,704,999
Refunding Bonds, Series 2007	4%	2020	4,861,632	3,015,000	-	390,000	2,625,000
School Building Bonds, Series 2008	Variable	2037	22,695,000	18,990,000	-	1,660,000	17,330,000
Refund Bonds, Series 2012	2 - 3.25%	2030	9,629,732	9,534,732	-	75,000	9,459,732
Refund Bonds, Series 2013	2 - 5%	2032	37,610,000	37,610,000	-	-	37,610,000
Total Bonds Payable				<u>\$ 92,303,524</u>	<u>\$ -</u>	<u>\$ 4,290,745</u>	<u>\$ 88,012,779</u>

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Obligations

2. Advance Refunding

In a prior year, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the assets of the trust account and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2014, defeased bonds totaling \$48,080,000 remain outstanding.

3. Accreted Interest Payable

The Premium Capital Appreciation Bonds (Series 1995A, 1996, 1998, 2006A, 2007 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, 2014.

	Balance June 30, 2013	Additions	Retired	Balance June 30, 2014
Accreted Interest Payable	\$ 9,975,053	\$ 935,702	\$ 1,804,255	\$ 9,106,500

Accreted interest payable of \$1,804,255 was paid by the Debt Service Fund during the year ended June 30, 2014.

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
2015	\$ 3,758,763	\$ 2,027,482	\$ 5,786,245
2016	3,990,541	4,185,427	8,175,968
2017	4,127,656	4,264,481	8,392,137
2018	4,301,590	4,344,600	8,646,190
2019	4,484,095	4,438,226	8,922,321
2020 - 2024	17,570,402	23,281,239	40,851,641
2025 - 2029	23,389,732	15,240,577	38,630,309
2030 - 2034	19,665,000	8,583,805	28,248,805
2035 - 2039	6,725,000	56,363	6,781,363
Totals	\$ 88,012,779	\$ 66,422,200	\$154,434,979

1. Variable Rate Terms

Interest requirements for variable rate debt (Series 2008) are calculated using the interest rate effective at the end of the reporting year. These bonds bore an initial rate of 3.125% through July 31, 2009. After that date, the interest rate is recalculated annually by the remarketing agent for a one-year term period. As of June 30, 2014, these bonds bear interest at the rate of 0.75%; this rate will be in effect until July 31, 2014.

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS (continued)

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, 2014, 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.

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, 2014, the District estimates that sick-leave benefits of \$75,333 will be paid to retiring employees during the year ending June 30, 2015. 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. The District has only one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on 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 following schedule summarizes the changes in deferred outflows of resources during the year ended June 30, 2014:

	Balance July 1, 2013	Write-Offs / Amortization	Balance June 30, 2014
Deferred Charge on Bond Refundings	\$ 3,466,384	\$ 529,044	\$ 2,937,340

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 District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

III. DETAILED NOTES ON ALL FUNDS (continued)

I. Deferred Outflows and Inflows of Resources (continued)

Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows at June 30, 2014:

	General Fund	Debt Service Fund	Total
Property Taxes	\$ 1,184,768	\$ 305,550	\$ 1,490,318

J. Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the District's governmental funds are composed of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Nonspendable:				
Inventories	\$ 145,302	\$ -	\$ -	\$ 145,302
Restricted:				
Federal or State Grants	-	1,092,465	-	1,092,465
Retirement of Long-Term Debt	-	-	7,093,525	7,093,525
Committed:				
Campus Activities / Programs	-	139,158	-	139,158
Unassigned	12,756,092	-	-	12,756,092
Total	\$ 12,901,394	\$ 1,231,623	\$ 7,093,525	\$ 21,226,542

K. Revenue from Local and Intermediate Sources

During the year ended June 30, 2014, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$ 24,178,620	\$ -	\$ 9,285,200	\$ 33,463,820
Penalties, Interest and Other	224,839	-	83,214	308,053
Tax-Related Income	24,403,459	-	9,368,414	33,771,873
Investment Income	5,459	128	2,429	8,016
Food Sales	-	742,771	-	742,771
Co-curricular Student Activities	150,701	-	-	150,701
Gifts and Bequests	-	152,663	-	152,663
Other	150,316	737,492	-	887,808
Total	\$ 24,709,935	\$ 1,633,054	\$ 9,370,843	\$ 35,713,832

L. Nonmonetary Transactions

During the year ended June 30, 2014, the District received \$256,099 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, 2014

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 Blue Cross Blue Shield of Texas. The District paid premiums of \$250 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, 2014, 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, 2014, 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, 2013, 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 and its employees contribute to the Teacher Retirements System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of the public school systems of Texas. TRS operates primarily under provisions of the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION (continued)

B. Defined Benefit Pension Plan (continued)

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) the state constitution requires the 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 of all members of the system during the fiscal year; and (2) state statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS's 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.

Contribution rates and contributions for fiscal years 2012 - 2014 are shown in the table below. These rates are set by the General Appropriations Act. In certain circumstances, the District is required to make all or a portion of the State's and / or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts					
Year	Member		State		Statutory Minimum
	Rate	Amount	Rate	Amount	Amount
2012	6.4%	\$ 2,365,150	6.0%	\$ 1,646,309	\$ 263,033
2013	6.4%	2,373,025	6.4%	1,661,148	263,739
2014	6.4%	2,500,805	6.8%	1,979,294	355,880

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 Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees 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.

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. 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 2012 - 2014.

Contribution Rates and Contribution Amounts						
Year	Active Member		State		District	
	Rate	Amount	Rate	Amount	Rate	Amount
2012	0.65%	\$ 240,211	1.0%	\$ 317,896	0.55%	\$ 203,257
2013	0.65%	241,009	0.5%	191,503	0.55%	203,935
2014	0.65%	253,988	1.0%	318,022	0.55%	214,911

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION (continued)

C. Postemployment Benefits Other than Pensions (continued)

3. 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 \$107,516, \$148,168 and \$81,207 for the years ended June 30, 2014, 2013 and 2012, respectively.

4. Early Retiree Reinsurance Program

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55 - 64 and their covered dependents regardless of age. An "early retiree" is defined as a plan participant aged 55 - 64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. These on-behalf payments have been recognized as equal revenues and expenditures by the District, in the amount of \$0, \$0 and \$89,544 for the years ended June 30, 2014, 2013 and 2012, respectively.

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, 2014.

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

In July 2014, the District issued Unlimited Tax Refunding Bonds, Series 2014 in the amount of \$15,760,000. The proceeds from the sale of these bonds, along with about \$2,136,000 of District funds, will be used for the advance refunding of the outstanding balance of the District's 2004 and 2008 series building and refunding bonds. Those bonds have an outstanding balance of \$19,300,000 at June 30, 2014 (\$1,970,000 for 2004 bonds and \$17,330,000 for 2008 bonds). This advance refunding is expected to save the District over \$76,000 (at current rates) in interest costs.

Sherman Independent School District
Notes to Financial Statements
June 30, 2014

IV. OTHER INFORMATION (continued)

G. New Accounting Standards

The GASB has issued the following statement, to be effective in future years, which will have a financial impact on the District's financial statements:

GASB Statement Number 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, will be implemented during the fiscal year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local government pensions and improve the decision-usefulness of information in contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. This statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. The District is currently evaluating potential changes to the financial statements as a result of the implementation of this statement.

Required Supplementary Information

**Sherman Independent School District
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014**

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	\$ 24,395,000	\$ 24,394,850	\$ 24,709,935	\$ 315,085
5800 State Program Revenues	25,615,381	26,831,461	26,859,915	28,454
5900 Federal Program Revenues	440,000	440,000	827,130	387,130
5020 Total Revenues	<u>50,450,381</u>	<u>51,666,311</u>	<u>52,396,980</u>	<u>730,669</u>
Expenditures				
0011 Instruction	30,296,893	30,544,523	30,483,265	61,258
0012 Instructional Resources and Media Services	752,476	787,476	742,640	44,836
0013 Curriculum and Instructional Staff Development	575,027	552,427	445,573	106,854
0021 Instructional Leadership	689,237	689,237	587,073	102,164
0023 School Leadership	3,053,787	3,053,787	2,949,941	103,846
0031 Guidance, Counseling and Evaluation Services	1,596,152	1,611,152	1,532,853	78,299
0033 Health Services	646,847	681,847	667,380	14,467
0034 Student (Pupil) Transportation	1,879,891	1,919,891	1,821,374	98,517
0036 Extracurricular Activities	1,357,473	1,640,823	1,614,627	26,196
0041 General Administration	1,618,348	1,665,448	1,586,766	78,682
0051 Plant Maintenance and Operations	5,923,513	5,995,513	5,980,617	14,896
0052 Security and Monitoring Services	256,519	306,519	254,138	52,381
0053 Data Processing Services	939,986	1,054,586	990,567	64,019
0081 Facilities Acquisition and Construction	75,000	404,000	283,857	120,143
0099 Other Intergovernmental Charges	691,100	661,100	651,787	9,313
6030 Total Expenditures	<u>50,352,249</u>	<u>51,568,329</u>	<u>50,592,458</u>	<u>975,871</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>98,132</u>	<u>97,982</u>	<u>1,804,522</u>	<u>1,706,540</u>
Other Financing Sources (Uses)				
7912 Sale of Real or Personal Property	-	-	15,895	15,895
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>15,895</u>	<u>15,895</u>
1200 Net Change in Fund Balances	98,132	97,982	1,820,417	1,722,435
0100 Fund Balances - July 1 (Beginning)	<u>11,080,977</u>	<u>11,080,977</u>	<u>11,080,977</u>	<u>-</u>
3000 Fund Balances - June 30 (Ending)	<u>\$ 11,179,109</u>	<u>\$ 11,178,959</u>	<u>\$ 12,901,394</u>	<u>\$ 1,722,435</u>

Other Schedules (Required by TEA)

**Sherman Independent School District
Schedule of Delinquent Taxes Receivable
Year Ended June 30, 2014**

Last Ten Years Ended June 30	Tax Rates		3 Assessed / Appraised Value for School Tax Purposes
	1 Maintenance	2 Debt Service	
2005 and prior years			
2006	1.50000	0.18000	\$ 1,766,956,124
2007	1.37000	0.26000	1,952,998,000
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 (School year under audit)	1.04000	0.40000	2,344,417,869
1000	TOTALS		

10	20	31	32	40	50
Beginning Balance 07/01/2013	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 06/30/2014
\$ 454,617	\$ -	\$ 4,602	\$ 552	\$ (36,698)	\$ 412,765
108,858	-	1,643	197	(131)	106,887
68,410	-	1,370	260	(1,093)	65,687
68,739	-	1,941	616	(4,905)	61,277
93,260	-	11,775	4,529	(654)	76,302
145,232	-	19,560	7,523	(332)	117,817
193,889	-	37,811	14,543	(412)	141,123
309,495	-	82,377	31,683	(9,000)	186,435
864,933	-	219,019	84,238	(350,302)	211,374
-	33,538,909	23,729,376	9,126,683	19,455	702,305
\$ 2,307,433	\$ 33,538,909	\$ 24,109,474	\$ 9,270,824	\$ (384,072)	\$ 2,081,972

**Sherman Independent School District
 Budgetary Comparison Schedule
 Child Nutrition Program
 Year Ended June 30, 2014**

Exhibit J-4

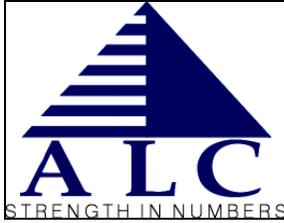
Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5700 Local and Intermediate Sources	\$ 744,646	\$ 744,646	\$ 742,899	\$ (1,747)
5800 State Program Revenues	20,375	20,375	23,013	2,638
5900 Federal Program Revenues	3,297,727	3,332,727	3,307,655	(25,072)
5020 Total Revenues	4,062,748	4,097,748	4,073,567	(24,181)
Expenditures				
0035 Food Services	3,557,205	3,592,205	3,466,146	126,059
0051 Plant Maintenance and Operations	320,000	434,299	369,106	65,193
6030 Total Expenditures	3,877,205	4,026,504	3,835,252	191,252
1200 Net Change in Fund Balances	185,543	71,244	238,315	167,071
0100 Fund Balances - July 1 (Beginning)	854,150	854,150	854,150	-
3000 Fund Balances - June 30 (Ending)	\$ 1,039,693	\$ 925,394	\$ 1,092,465	\$ 167,071

**Sherman Independent School District
Budgetary Comparison Schedule
Debt Service Fund
Year Ended June 30, 2014**

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	\$ 9,276,000	\$ 9,276,000	\$ 9,370,844	\$ 94,844
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>9,276,000</u>	<u>9,276,000</u>	<u>9,370,844</u>	<u>94,844</u>
Expenditures				
0071 Debt Service - Principal on Long-Term Debt	9,090,100	6,134,293	4,290,745	1,843,548
0072 Debt Service - Interest on Long-Term Debt	-	2,955,807	4,366,789	(1,410,982)
0073 Debt Service - Bond Issuance Costs and Fees	140,000	140,000	167,439	(27,439)
6030 Total Expenditures	<u>9,230,100</u>	<u>9,230,100</u>	<u>8,824,973</u>	<u>405,127</u>
1200 Net Change in Fund Balances	45,900	45,900	545,871	499,971
0100 Fund Balances - July 1 (Beginning)	<u>6,547,653</u>	<u>6,547,653</u>	<u>6,547,654</u>	<u>1</u>
3000 Fund Balances - June 30 (Ending)	<u><u>\$ 6,593,553</u></u>	<u><u>\$ 6,593,553</u></u>	<u><u>\$ 7,093,525</u></u>	<u><u>\$ 499,972</u></u>

FEDERAL AWARDS SECTION



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DAROLD P. ADAMI, JR.
BELINDA W. DEVINCENTIS

**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, 2014, 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 4, 2014.

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 4, 2014

Compliance and Other Matters

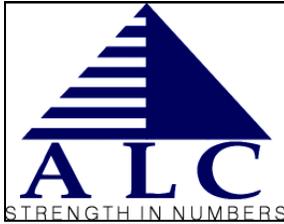
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 4, 2014



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

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**Independent Auditor's Report on Compliance for
Each Major Program and on Internal Control over
Compliance Required by OMB Circular A-133**

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 U.S. Office of Management and Budget (OMB) Circular A-133 *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, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Sherman, Texas
November 4, 2014

**Sherman Independent School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

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	No
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	None reported
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 section 510(a) of Circular A-133?	No
Major Federal Programs:	
Title I Grants to Local Educational Agencies	CFDA #84.010A
Special Education Cluster	
Special Education - Grants to States (IDEA, Part B)	CFDA #84.027
Special Education - Preschool Grants (IDEA Preschool)	CFDA #84.173
Improving Teacher Quality State Grants (Title II, Part A)	CFDA #84.367
Head Start	CFDA #93.600
Dollar threshold used to distinguish between type A and type B federal programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

Section II -- Findings Related to Financial Statements

None

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

None

**Sherman Independent School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

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		\$ 62,354
Passed Through Texas Education Agency:			
Title 1, Part A - Improving Basic Programs (2012-2013)	84.010A	13610101091906	(20,055)
Title 1, Part A - Improving Basic Programs (2013-2014)	84.010A	14610101091906	1,447,092
Title 1, Part D, Subpart 2 - Delinquent Programs	84.010A	14610103091906	112,001
Total CFDA Number 84.010A			<u>1,539,038</u>
Passed Through Texas Education Agency:			
IDEA-B Formula (2012-2013) **	84.027A	136600010919066600	34,316
IDEA-B Formula (2013-2014) **	84.027A	146600010919066600	1,162,066
IDEA-B Formula, Deaf **	84.027A	146600010919066601	3,694
IDEA-B Discretionary (Deaf) (2012-2013) **	84.027A	136600020919066673	100
IDEA-B Discretionary (Deaf) (2013-2014) **	84.027A	146600020919066673	6,264
Total CFDA Number 84.027A			<u>1,206,440</u>
Passed Through Texas Education Agency:			
Title II Part A Teacher / Principal Training (2012-2013)	84.367A	13694501091906	(23)
Title II Part A Teacher / Principal Training (2013-2014)	84.367A	14694501091906	281,588
Total CFDA Number 84.367A			<u>281,565</u>
Passed Through Texas Education Agency:			
Vocational Education Basic Grant (2012-2013)	84.048A	13420006091906	395
Vocational Education Basic Grant (2013-2014)	84.048A	14420006091906	80,981
Total CFDA Number 84.048A			<u>81,376</u>
Passed Through Texas Education Agency:			
Title III, Part A Limited English Proficiency (2012-2013)	84.365A	13671001091906	3,928
Title III, Part A Limited English Proficiency (2013-2014)	84.365A	13671001091906	79,285
Total CFDA Number 84.365A			<u>83,213</u>
Passed Through Texas Education Agency:			
IDEA-B Preschool **	84.173A	146610010919066610	31,219
IDEA-B Preschool, Deaf (2012-2013) **	84.173A	136610010919066611	1,275
IDEA-B Preschool, Deaf (2013-2014) **	84.173A	146610010919066611	1,108
Total CFDA Number 84.173A			<u>33,602</u>
Passed Through Texas Education Agency:			
21st Century Community Learning Centers (2012-2013)	84.287C	126950147110054	33,179
21st Century Community Learning Centers (2013-2014)	84.287C	136950147110054	359,632
Total CFDA Number 84.287C			<u>392,811</u>
Passed Through Region X Education Service Center:			
Education for Homeless Children and Youth (2012-2013)	84.196	00-047	11,195
Education for Homeless Children and Youth (2013-2014)	84.196	00-047	46,868
Total CFDA Number 84.196			<u>58,063</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 3,738,462</u>

Continued

**Sherman Independent School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

(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 (2012-2013)	93.600	06CH0391	\$ 17,795
Head Start (2013-2014)	93.600	06CH7092	293,956
Early Head Start (2013-2014)	93.600	06CH7092	133
Total CFDA Number 93.600			<u>311,884</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 311,884</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Education Agency:			
National School Lunch Program * (2012-2013)	10.555	71301301	\$ 316,190
National School Lunch Program * (2013-2014)	10.555	71301401	1,841,818
Passed Through Texas Department of Human Services:			
USDA Commodities (Noncash)	10.555		256,099
Total CFDA Number 10.555			<u>2,414,107</u>
Passed Through Texas Education Agency:			
National School Breakfast Program * (2012-2013)	10.553	71401301	120,178
National School Breakfast Program * (2013-2014)	10.553	71401401	773,370
Total CFDA Number 10.553			<u>893,548</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 3,307,655</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 7,358,001</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 OMB Circular A-133, Compliance Supplement, Part 3, Section H - Period of Availability of Federal Funds.

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	\$ 7,358,001
Medicaid Reimbursements (SHARS)	827,130
Total Federal Program Revenues - Exhibit C-3	<u><u>\$ 8,185,131</u></u>