

Sherman Independent School District
Annual Financial Report
Year Ended June 30, 2010

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Year Ended June 30, 2010**

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Sherman Independent School District
Name of School District

Grayson
County

091-906
County District Number

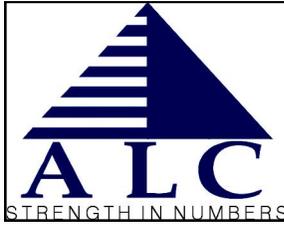
We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved ___ disapproved for the year ended June 30, 2010, at a meeting of the Board of Trustees of such school district on the 22th day of November 2010.


Signature of Board Secretary


Signature of Board President

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

FINANCIAL SECTION



ADAMI, LINDSEY & COMPANY, L.L.P.

Certified Public Accountants

1800 TEAGUE DRIVE, SUITE 306
SHERMAN, TEXAS 75090

(903) 892-2727
FACSIMILE: (903) 868-9682
WWW.ADAMILINDSEY.COM

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

Independent Auditor's Report

Board of Trustees
Sherman Independent School District
120 W. King
Sherman, Texas 75090

Members of the Board:

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 36 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 through J-5. Except for Exhibit J-3 (Fund Balance and Cash Flow Calculation Worksheet) which is marked UNAUDITED and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Sherman, Texas
November 22, 2010

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, 2010. 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 \$15,605,024 at June 30, 2010. This amount is based on full accrual accounting, as required by Governmental Accounting Standards Board (GASB) Standard 34. Most of this amount (\$10,488,835 or 67%) may be used to meet the District’s ongoing obligations.
- The District’s governmental funds reported combined ending fund balances of \$21,730,783 at June 30, 2010, using the modified accrual basis of accounting. The District has spending discretion over approximately thirty-five percent (35%) of total fund balances (\$7,609,891 of \$21,730,783), reported as unreserved, undesignated fund balance.
- In the General Fund, the District had unreserved, undesignated fund balance of \$7,609,891 at June 30, 2010. This amount represents seventeen percent (17%) of total general fund expenditures (\$45,963,667). The General Fund averaged expenditures of \$3,830,305 per month during the 2009-10 fiscal year; therefore, this fund balance (\$7,609,891) represents approximately two (2) 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 gradually decreased during the last five years, as follows:

Fiscal Year	Maintenance and Operations	Debt Service	Total Tax Rate
2006-07	1.37	0.26	1.63
2007-08	1.04	0.33	1.37
2008-09	1.04	0.40	1.44
2009-10	1.04	0.40	1.44
2010-11	1.04	0.40	1.44

In September 2005, the voters approved a \$77 million bond package to construct two new elementary schools; demolish and rebuild a portion of Washington Elementary; add classrooms at Sherman High, Piner Middle, and Dillingham Intermediate Schools; add security entrances and cameras to existing campuses; upgrade the fire alarm systems at every campus; add technology to classrooms at every campus; replace the Center Street practice facility with a new building near Piner Middle School; construct a new administration building and maintenance/transportation center; and modernize the buildings at Bearcat Stadium. As of September 1, 2010, the District had completed (1) the new Neblett, Sory, and Washington Elementary Schools; (2) the new Piner Field House; (3) new classroom wings at High School, Piner and Dillingham; (4) new security entrances and security camera systems at High School, Piner, Dillingham, Douglass, Crutchfield, Fairview, Jefferson, Perrin, and Wakefield; (5) new kitchen and classroom renovations at Douglass Early Childhood Center; and (6) various building improvements at Bearcat Stadium. Construction continues at the Education Service Center on Loy Lake Road. Completion of the Education Service Center is expected in December 2010.

In September 2010, the District received the School FIRST (Financial Integrity Rating System of Texas) Rating for the 2008-09 fiscal year. The District received an above standard achievement rating for the 2008-09 fiscal year. According to the Texas Education Agency, the primary goal of the School FIRST Rating System is to improve the management of school districts' financial resources. The FIRST Rating is similar to academic accountability ratings and is based on twenty-two indicators and four possible ratings ó superior achievement, above standard achievement, standard achievement, and substandard achievement.

Modest growth continues in Sherman with additional 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 statement. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements ó 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 assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that 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 ó 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 ó 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 three categories; governmental, proprietary, and fiduciary.

Governmental funds ó 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 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 three (3) major funds – the General Fund, Debt Service Fund and Capital Projects 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 36, 41, and 42 of this report.

Proprietary funds – Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no business-type activities or enterprise funds. The second type of proprietary fund is the internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District used the internal service fund to report activities for its partially self-funded insurance program (medical and workers' compensation insurance). The District discontinued these programs effective August 31, 2009 and has closed this fund as of June 30, 2010. The proprietary fund financial statements can be found on pages 16 - 18 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 19 - 20 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 21 - 35 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 36 of this report.

Net Assets

Net assets can measure a government's financial position over time. The District's assets exceeded liabilities by \$15,605,024 as of June 30, 2010, an increase of \$950,705 from the previous year.

<i>(rounded to millions)</i>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 29.8	\$ 35.7
Capital assets	<u>110.7</u>	<u>107.3</u>
Total assets	<u>140.5</u>	<u>143.0</u>
Other liabilities	6.9	7.7
Long-term liabilities	<u>118.0</u>	<u>120.7</u>
Total liabilities	<u>124.9</u>	<u>128.4</u>

<i>(rounded to millions)</i>	<u>2010</u>	<u>2009</u>
Net assets:		
Invested in capital assets, net of related debt	1.2	1.5
Restricted	3.9	2.5
Unrestricted	<u>10.5</u>	<u>10.6</u>
Total net assets	<u>\$ 15.6</u>	<u>\$ 14.6</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 assets (\$3,929,024 or 25%) is subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$10,488,835 or 67%) 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 assets increased by \$950,705 during the 2009-10 fiscal year. The total cost of all governmental activities was \$66,942,136. Our taxpayers paid \$32,484,382 or forty-nine percent (49%) of these activities.

Changes in Net Assets

<i>(rounded to thousands)</i>	<u>2010</u>	<u>2009</u>
Program revenues		
Charges for services	\$ 1,268	\$ 1,453
Operating grants, contributions	13,806	10,161
General revenues:		
Property taxes	32,484	30,619
State aid	19,842	19,620
Investment earnings	42	529
Miscellaneous	<u>451</u>	<u>354</u>
Total revenues	<u>67,893</u>	<u>62,736</u>
Expenses:		
Instruction	35,566	35,736
Instructional resources and media services	1,100	1,342
Curriculum and instructional staff development	1,336	1,269
Instructional leadership	758	817
School leadership	3,040	3,099
Guidance, counseling and evaluation services	2,308	2,137
Social work services	2	2
Health services	565	653
Student (pupil) transportation	1,392	1,414
Food services	3,354	3,286
Extracurricular activities	1,392	1,363
General administration	1,620	1,477
Plant maintenance and operations	6,264	6,274
Security and monitoring services	307	293
Data processing services	1,945	1,316
Community services	35	18

	<u>2010</u>	<u>2009</u>
Debt service-interest and fees	5,282	5,550
Facilities acquisition and construction	136	2,479
Other intergovernmental charges	<u>540</u>	<u>480</u>
Total expenses	<u>66,942</u>	<u>69,005</u>
Increase in net assets	951	-6,269
Beginning net assets	<u>14,654</u>	<u>20,923</u>
Ending net assets	<u>\$ 15,605</u>	<u>\$ 14,654</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 ó 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, 2010, the District's governmental funds reported combined fund balances of \$21,730,783, a decrease of \$5,098,513. A significant portion of total fund balances (\$6,666,254 or 31%) is reserved for the building construction and modernization projects approved by the voters in September 2005. Unreserved, undesignated fund balance represents a large portion of total fund balances (\$7,609,891 or 35%) and is available for future spending or unanticipated events such as state funding uncertainties, increased student enrollment, wide swings in total property tax values, future salary increases, or unexpected lawsuits. The remainder of fund balance (\$7,454,638 or 34%) is not available for new spending because it has already been committed for inventory, debt retirement, food service, outstanding encumbrances, and unspent incentive grants.

The general fund is the primary operating fund of the District. At June 30, 2010, the general fund had unreserved, undesignated fund balances of \$7,609,891 and total fund balances of \$8,119,790. As a measure of the general fund's liquidity, it is useful to compare both fund balance amounts to total fund expenditures (\$45,963,667). Unreserved, undesignated fund balance and total fund balance represent seventeen percent (17%) and eighteen percent (18%) of total general fund expenditures, respectively. The unreserved, undesignated fund balance represents approximately two months of annual general fund expenditures.

Total fund balance increased by \$68,968 in the general fund during the current fiscal year. Key factors related to this change include:

- The final budget projected revenues of \$45,325,409 and expenditures of \$45,296,320, a budgeted increase of \$29,089.

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 reserved and designated in 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 \$267,361) as follows:

- Dressing room improvements at Bearcat Stadium (\$35,000).
- Parking lot replacement at Sherman High School (\$35,000).
- Additional election cost (\$19,203).
- Time clocks for the Service Center (\$9,912).
- Additional buses (\$168,246).

Capital Asset and Debt Administration

Capital assets ó The District’s investment in capital assets for its governmental activities at June 30, 2010, totaled \$109,689,369 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building and improvements, and furniture and equipment. Additional information on the District’s capital assets can be found in Note III, Section D on page 28 of this report. The District had the following capital assets at June 30, 2010 and 2009:

<i>(rounded to thousands)</i>	<u>2010</u>	<u>2009</u>
Land	\$ 3,322	\$ 3,322
Construction in progress	6,428	719
Buildings and improvements, net	92,786	94,803
Furniture and equipment, net	<u>8,153</u>	<u>8,489</u>
Total (historical cost)	<u>\$ 110,689</u>	<u>\$ 107,333</u>

Long-term debt ó At June 30, 2010, the District had total bonded debt outstanding of \$104,648,195, a decrease of \$2,484,337 from the prior year. Additional information on the District’s long-term debt can be found in Note III, Sections F and G on pages 29 - 30 of this report. 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.

Economic Factors, Next Year’s Budgets and Tax Rates

- The unemployment rate for Sherman-Denison was 8.8 percent in June 2010. The current rate represents a 0.5 percent increase over the previous year and is slightly higher than the overall State of Texas’ unemployment rate of 8.2 percent.
- In July 2010, the District locked in an interest rate of 1.0% on the Series 2008 Variable Rate Bonds. This interest rate will save the taxpayers approximately \$650,000 in interest costs when compared to fixed-rate bonds. The interest rate on these bonds is subject to annual modifications.
- The District’s combined tax rate was \$1.44 per \$100 of assessed property value in the 2009-10 fiscal year. The combined tax rate will remain at \$1.44 for next year (2010-11 fiscal year).
- The local certified property values at January 1, 2010 are estimated at \$2,338,072,689. The District’s property values per student stayed below the threshold (\$319,500) for Chapter 41 payments (Robin Hood). Using the 2009 property value study, the State Comptroller calculated taxable values (after exemptions) of \$2,299,689,566 (T2 value).
- The District’s student attendance rate in 2009-10 was slightly higher (95.3%) than the previous year (95.1%).

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 Assets
June 30, 2010**

Exhibit A-1

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and Cash Equivalents	\$ 1,499,801
1120	Current Investments	15,772,474
1220	Property Taxes Receivable (Delinquent)	2,304,314
1230	Allowance for Uncollectible Taxes	(246,227)
1240	Due from Other Governments	9,391,965
1290	Other Receivables	11,654
1300	Inventories - Supplies and Materials	143,853
1410	Deferred Expenditures	85,378
1420	Capital Bond Debt Issuance Costs	846,589
	Capital Assets:	
1510	Land	3,321,945
1520	Buildings and Improvements (Net)	92,785,724
1530	Furniture and Equipment (Net)	8,153,032
1580	Construction in Progress	6,428,668
1000	Total Assets	140,499,170
	Liabilities	
2110	Accounts Payable	1,441,386
2140	Accrued Interest Payable	1,443,695
2150	Payroll Deduction and Withholdings Payable	780,637
2160	Accrued Wages Payable	2,606,408
2300	Deferred Revenues	576,951
	Long-Term Liabilities:	
2501	Due Within One Year	4,735,570
2502	Due in More Than One Year	113,309,499
2000	Total Liabilities	124,894,146
	Net Assets	
3200	Invested in Capital Assets, Net of Related Debt	1,187,165
	Restricted for:	
3820	Federal and State Programs	225,596
3850	Debt Service	3,442,191
3860	Capital Projects	261,237
3900	Unrestricted	10,488,835
3000	Total Net Assets	\$ 15,605,024

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

**Sherman Independent School District
Statement of Activities
Year Ended June 30, 2010**

Exhibit A-2

Data Control Codes	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
11	Instruction	\$ 35,565,866	\$ 135,248	\$ 7,563,171	\$ (27,867,447)
12	Instructional Resources and Media Services	1,099,935	--	97,802	(1,002,133)
13	Curriculum and Instructional Staff Development	1,336,446	--	774,374	(562,072)
21	Instructional Leadership	757,505	--	236,504	(521,001)
23	School Leadership	3,039,795	--	216,627	(2,823,168)
31	Guidance, Counseling and Evaluation Services	2,308,294	--	857,307	(1,450,987)
32	Social Work Services	2,252	--	1,910	(342)
33	Health Services	565,323	--	42,574	(522,749)
34	Student (Pupil) Transportation	1,392,120	--	166,053	(1,226,067)
35	Food Services	3,353,952	983,549	2,686,431	316,028
36	Extracurricular Activities	1,392,382	144,795	86,899	(1,160,688)
41	General Administration	1,620,222	--	105,920	(1,514,302)
51	Plant Maintenance and Operations	6,264,025	4,288	203,244	(6,056,493)
52	Security and Monitoring Services	306,590	--	27,426	(279,164)
53	Data Processing Services	1,944,674	--	316,771	(1,627,903)
61	Community Services	35,134	--	35,132	(2)
72	Debt Service - Interest on Long-Term Debt	5,144,276	--	--	(5,144,276)
73	Debt Service - Bond Issuance Costs and Fees	137,456	--	--	(137,456)
81	Facilities Acquisition and Construction	136,113	--	388,235	252,122
99	Other Intergovernmental Charges	539,776	--	--	(539,776)
	Total Governmental Activities	<u>\$ 66,942,136</u>	<u>\$ 1,267,880</u>	<u>\$ 13,806,380</u>	<u>(51,867,876)</u>
General Revenues					
Taxes:					
MT	Property Taxes - Levied for General Purposes				23,479,013
DT	Property Taxes - Levied for Debt Service				9,005,369
SF	State Aid and Federal Formula Grants				19,842,202
IE	Investment Earnings				41,435
MI	Miscellaneous				450,562
TR	Total General Revenues and Extraordinary Items				<u>52,818,581</u>
CN	Change in Net Assets				950,705
NB	Net Assets - Beginning of Year				<u>14,654,319</u>
NE	Net Assets - End of Year				<u>\$ 15,605,024</u>

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

**Sherman Independent School District
Balance Sheet
Governmental Funds
June 30, 2010**

Exhibit C-1

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total Governmental Funds	
Assets						
1110	Cash and Cash Equivalents	\$ 1,082,876	\$ --	\$ 263,343	\$ 153,582	\$ 1,499,801
1120	Current Investments	1,902,394	6,551,951	7,318,129	--	15,772,474
1220	Property Taxes Receivable (Delinquent)	1,800,775	503,539	--	--	2,304,314
1230	Allowance for Uncollectible Taxes	(189,271)	(56,956)	--	--	(246,227)
1240	Due from Other Governments	5,500,369	22,646	--	3,868,950	9,391,965
1260	Due from Other Funds	3,708,502	4,620	--	781,469	4,494,591
1290	Other Receivables	10,373	--	--	1,281	11,654
1300	Inventories	143,853	--	--	--	143,853
1410	Deferred Expenditures	3,236	--	--	25	3,261
1000	Total Assets	<u>\$ 13,963,107</u>	<u>\$ 7,025,800</u>	<u>\$ 7,581,472</u>	<u>\$ 4,805,307</u>	<u>\$ 33,375,686</u>
Liabilities						
2110	Accounts Payable	\$ 460,594	\$ 17,865	\$ 881,132	\$ 81,795	\$ 1,441,386
2150	Payroll Deductions and Withholdings	749,274	--	--	31,363	780,637
2160	Accrued Wages Payable	2,403,701	--	--	202,707	2,606,408
2170	Due to Other Funds	786,089	--	34,086	3,674,416	4,494,591
2300	Deferred Revenues	1,443,659	425,444	--	452,778	2,321,881
2000	Total Liabilities	<u>5,843,317</u>	<u>443,309</u>	<u>915,218</u>	<u>4,443,059</u>	<u>11,644,903</u>
Fund Balances						
Reserved for:						
3410	Investments in Inventory	143,853	--	--	--	143,853
3420	Retirement of Long-Term Debt	--	6,582,491	--	--	6,582,491
3440	Outstanding Encumbrances	354,863	--	--	--	354,863
3450	Food Service	--	--	--	225,596	225,596
3490	Other Purposes	--	--	6,666,254	--	6,666,254
Unreserved, Designated for:						
3590	Other Purposes	11,183	--	--	136,652	147,835
Unreserved and Undesignated:						
3600	Reported in General Fund	7,609,891	--	--	--	7,609,891
3000	Total Fund Balances	<u>8,119,790</u>	<u>6,582,491</u>	<u>6,666,254</u>	<u>362,248</u>	<u>21,730,783</u>
Total Liabilities and Fund Balances		<u>\$ 13,963,107</u>	<u>\$ 7,025,800</u>	<u>\$ 7,581,472</u>	<u>\$ 4,805,307</u>	<u>\$ 33,375,686</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 Assets
June 30, 2010**

Exhibit C-2

Total Fund Balances - Governmental Funds	\$ 21,730,783
Capital assets of \$145,002,409, net of accumulated depreciation of \$34,313,040, are not financial resources and, therefore, are not reported in governmental funds. See Note III D for details.	110,689,369
Long-term liabilities of \$118,045,069, 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.	(118,045,069)
Various other items are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including 1) deferred revenues of \$1,744,930 recognized as revenues; 2) accrued interest payable of \$1,443,695 recognized as a liability; 3) deferred expenditures (prepaid insurance) of \$82,117 recorded as an asset; and 4) bond issuance costs (net of accumulated amortization) of \$846,589 capitalized as an asset.	<u>1,229,941</u>
Net Assets of Governmental Activities	<u><u>\$ 15,605,024</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, 2010

Exhibit C-3

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
Revenues					
5700 Local and Intermediate Sources	\$ 24,048,216	\$ 9,059,460	\$ 24,500	\$ 1,834,437	\$ 34,966,613
5800 State Program Revenues	21,769,682	22,646	--	511,366	22,303,694
5900 Federal Program Revenues	257,500	--	--	10,227,832	10,485,332
5020 Total Revenues	<u>46,075,398</u>	<u>9,082,106</u>	<u>24,500</u>	<u>12,573,635</u>	<u>67,755,639</u>
Expenditures					
Current:					
0011 Instruction	27,751,794	--	7,778	6,095,614	33,855,186
0012 Instructional Resources and Media Services	746,218	--	--	36,541	782,759
0013 Curriculum and Instructional Staff Development	597,076	--	--	735,591	1,332,667
0021 Instructional Leadership	548,832	--	--	205,058	753,890
0023 School Leadership	2,853,708	--	558	55,647	2,909,913
0031 Guidance, Counseling and Evaluation Services	1,553,352	--	--	744,625	2,297,977
0032 Social Work Services	341	--	--	1,910	2,251
0033 Health Services	543,328	--	--	18,000	561,328
0034 Student (Pupil) Transportation	1,383,101	--	--	112,921	1,496,022
0035 Food Services	--	--	--	3,222,097	3,222,097
0036 Extracurricular Activities	1,141,141	--	11,670	55,220	1,208,031
0041 General Administration	1,572,258	--	--	40,117	1,612,375
0051 Plant Maintenance and Operations	5,591,935	--	--	299,492	5,891,427
0052 Security and Monitoring Services	280,946	--	--	25,236	306,182
0053 Data Processing Services	741,188	--	--	307,943	1,049,131
0061 Community Services	--	--	--	35,135	35,135
Debt Service:					
0071 Debt Service - Principal on Long-Term Debt	--	2,484,337	--	--	2,484,337
0072 Debt Service - Interest on Long-Term Debt	--	5,493,644	--	--	5,493,644
0073 Debt Service - Bond Issuance Cost and Fees	--	95,990	--	--	95,990
Capital Outlay:					
0081 Facilities Acquisition and Construction	118,673	--	6,374,363	388,235	6,881,271
Intergovernmental:					
0099 Other Intergovernmental Charges	539,776	--	--	--	539,776
6030 Total Expenditures	<u>45,963,667</u>	<u>8,073,971</u>	<u>6,394,369</u>	<u>12,379,382</u>	<u>72,811,389</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>111,731</u>	<u>1,008,135</u>	<u>(6,369,869)</u>	<u>194,253</u>	<u>(5,055,750)</u>
Other Financing Sources (Uses)					
7912 Sale of Real or Personal Property	20,548	--	--	--	20,548
7915 Operating Transfers In	--	--	250,000	--	250,000
8911 Operating Transfers Out	(63,311)	--	--	(250,000)	(313,311)
Total Other Financing Sources (Uses)	<u>(42,763)</u>	<u>--</u>	<u>250,000</u>	<u>(250,000)</u>	<u>(42,763)</u>
1200 Net Change in Fund Balances	68,968	1,008,135	(6,119,869)	(55,747)	(5,098,513)
0100 Fund Balances - July 1 (Beginning)	8,050,822	5,574,356	12,786,123	417,995	26,829,296
3000 Fund Balances - June 30 (Ending)	<u>\$ 8,119,790</u>	<u>\$ 6,582,491</u>	<u>\$ 6,666,254</u>	<u>\$ 362,248</u>	<u>\$ 21,730,783</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, 2010

Exhibit C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (5,098,513)
The District uses an internal service fund to charge the costs related to its self-insured health and workers compensation insurance programs to appropriate functions in other funds. The change in net assets of the internal service fund is reported with governmental activities.	(258,368)
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.	7,148,110
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.	(23,993)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(3,767,283)
Expenses related to the issuance of bonds payable (issuance costs, premiums and discounts) are reported as expenditures or other financing sources and uses in the governmental funds financial statements in the year the bonds are issued but are capitalized and amortized over future years in the government-wide financial statements.	20,845
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.	2,484,337
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.	166,119
Various other items are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, including changes in: 1) deferred revenue (property taxes) of \$70,088; 2) accrued interest payable of \$120,939; 3) deferred expenditures (prepaid insurance) of \$34,724; 4) accrued compensated absences of \$(16,804); and 5) other payables of \$70,504.	<u>279,451</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 950,705</u></u>

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

**Sherman Independent School District
Statement of Net Assets
Proprietary Funds
June 30, 2010**

Exhibit D-1

	<u>Governmental Activities - Internal Service Funds</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ --
Total Assets	<u> --</u>
Liabilities	
Accounts Payable	<u> --</u>
Total Liabilities	<u> --</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	--
Restricted	--
Unrestricted	--
Total Net Assets	<u><u> \$ --</u></u>

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

Sherman Independent School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2010

Exhibit D-2

	Governmental Activities - Internal Service Funds
Operating Revenues	
Local and Intermediate Source	\$ 693,853
Total Operating Revenues	<u>693,853</u>
Operating Expenses	
Payroll Costs	1,005,585
Professional and Contracted Services	10,000
Total Operating Expenses	<u>1,015,585</u>
Operating Income (Loss)	(321,732)
Nonoperating Revenues (Expenses)	
Earnings from Temporary Deposits and Investments	53
Total Nonoperating Revenues (Expenses)	<u>53</u>
Income Before Transfers	(321,679)
Transfers In	<u>63,311</u>
Change in Net Assets	(258,368)
Total Net Assets - July 1 (Beginning)	<u>258,368</u>
Total Net Assets - June 30 (Ending)	<u><u>\$ --</u></u>

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

**Sherman Independent School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2010**

Exhibit D-3

	<u>Governmental Activities - Internal Service Funds</u>
Cash Flows from Operating Activities	
Cash Received from Assessments - Other Funds	\$ 547,806
Cash Received from Employees	147,155
Cash Payments for Insurance Claims and Expenses	(1,680,936)
Cash Payments for Other Operating Expenses	<u>(10,000)</u>
Net Cash Used in Operating Activities	<u>(995,975)</u>
 Cash Flows from Noncapital Financing Activities	
Net Cash Received from Other Funds	<u>52,355</u>
Net Cash Used in Noncapital Financing Activities	<u>52,355</u>
 Cash Flows from Capital and Related Financing Activities	 <u> --</u>
 Cash Flows from Investing Activities	
Interest Earnings	289
Purchase / Redemption of Investments (Net)	<u>420,979</u>
Net Cash Provided by Investing Activities	<u>421,268</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (522,352)
Cash and Cash Equivalents - July 1 (Beginning)	<u>522,352</u>
Cash and Cash Equivalents - June 30 (Ending)	<u>\$ --</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (321,732)
(Increase) Decrease in Other Receivables	1,108
(Increase) Decrease in Deferred Expenditures	23,809
Increase (Decrease) in Accounts Payable	<u>(699,160)</u>
Net Cash Used in Operating Activities	<u>\$ (995,975)</u>

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

**Sherman Independent School District
Statement of Net Assets
Fiduciary Funds
June 30, 2010**

Exhibit E-1

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and Cash Equivalents	\$ --	\$ 80,824
Current Investments	36,328	--
Total Assets	\$ 36,328	\$ 80,824
Liabilities		
Due to Student Groups	\$ --	\$ 80,824
Total Liabilities	--	\$ 80,824
Net Assets		
Restricted for Scholarships	36,328	
Total Net Assets	\$ 36,328	

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

**Sherman Independent School District
Statement of Changes in Net Assets
Fiduciary Funds
Year Ended June 30, 2010**

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Local and Intermediate Source	\$ 501
Total Additions	501
Deductions	
Other Operating Costs	800
Total Deductions	800
Change in Net Assets	(299)
Total Net Assets - July 1 (Beginning)	36,627
Total Net Assets - June 30 (Ending)	\$ 36,328

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

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

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*. 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 Assets 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 three fund categories: governmental, proprietary 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as material, labor and direct overhead. Other expenses are nonoperating.

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.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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).

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 deferred 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.

Proprietary and 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 Assets. The total net assets is segregated into: 1) invested in capital assets net of related debt, 2) restricted net assets, and 3) unrestricted net assets. 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. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

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 ó 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.

Capital Projects Fund ó This fund accounts for the proceeds of long-term debt financing and revenues and expenditures related to authorized construction and other capital acquisitions.

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

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

Additionally, the District reports the following nonmajor fund type:

Governmental Funds:

Special Revenue Funds ó 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.

The District reports the following proprietary fund:

Internal Service Fund ó This fund accounts for the District's self-funded health insurance and workers' compensation insurance plans provided for the benefit of employees. These plans are intended to be self-supporting and contributions for premiums are increased periodically to cover the cost of claims, insurance premiums and administrative fees.

The District reports the following fiduciary funds:

Private Purpose Trust Fund ó 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 ó 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 Assets / 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. Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments are considered to be cash equivalents if they have maturity of three months or less when purchased.

3. 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 and Debt Service Funds 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.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

4. 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.

5. 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.

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

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

6. 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.

7. 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 assets. Bond discounts, premiums and issuance costs are deferred 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Estimates

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

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. 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.

11. 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

The expenditures of the General Fund (a major governmental fund) exceeded its budgeted appropriations by \$667,347 during the year ended June 30, 2010.

C. Deficit Fund Equity

None of the District's funds have deficit fund equity as of June 30, 2010.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

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, 2010, 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, 2010, 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, 2010, 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, 2010, the District's investments are not subject to concentration of credit risk.

The District's investments at June 30, 2010 are shown below:

Name	Cost	Fair Value	Credit Rating	Maturity
Pooled Investments:				
Texpool	\$ 9,725,111	\$ 9,725,500	AAAm	< 1 Year
Lone Star Investment Pool	6,046,818	6,046,701	AAA	< 1 Year
TexSTAR	268	268	AAAm	< 1 Year
LOGIC	5	5	AAA	< 1 Year
Total Investments	<u>\$ 15,772,202</u>	<u>\$ 15,772,474</u>		

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

Receivables as of June 30, 2010 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	Capital Projects	Other Funds	
Taxes	\$ 1,800,775	\$ 503,539	\$ --	\$ --	\$ 2,304,314
Due from Other Governments	5,500,369	22,646	--	3,868,950	9,391,965
Other Receivables	10,373	--	--	1,281	11,654
Total Receivables	7,311,517	526,185	--	3,870,231	11,707,933
Allowance for Uncollectible Accounts	(189,271)	(56,956)	--	--	(246,227)
Net Receivables	<u>\$ 7,122,246</u>	<u>\$ 469,229</u>	<u>\$ --</u>	<u>\$ 3,870,231</u>	<u>\$ 11,461,706</u>

The District participates in a variety of Federal and State programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita programs. Amounts due from Federal, State and other governments as of June 30, 2010 are summarized below. Most federal grants are passed through the Texas Education Agency.

Fund	State Entitlements	Federal Grants	State Grants	Other	Total
General Fund	\$ 5,372,956	\$ --	\$ --	\$ 127,413	\$ 5,500,369
Debt Service Fund	22,646	--	--	--	22,646
Special Revenue Funds	--	2,931,243	195,373	742,334	3,868,950
Total	<u>\$ 5,395,602</u>	<u>\$ 2,931,243</u>	<u>\$ 195,373</u>	<u>\$ 869,747</u>	<u>\$ 9,391,965</u>

C. Interfund Receivables, Payables and Transfers

Interfund balances at June 30, 2010 consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Special Revenue Funds (various)	\$ 3,657,284	Pooled Cash Overdraft
General Fund	Special Revenue Funds (various)	17,131	Miscellaneous
General Fund	Capital Projects Fund	34,087	Miscellaneous
Special Revenue Funds (various)	General Fund	781,469	Pooled Cash Allocations
Debt Service Fund	General Fund	4,620	Allocation of Tax Revenues
		<u>\$ 4,494,591</u>	

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

Interfund transfers are defined as òflows of assets without equivalent flows of assets in return and without a requirement for repayment.ö The District made the following interfund transfers during the year ended June 30, 2010:

- A transfer of \$250,000 was made from the Child Nutrition Fund to the Capital Projects Fund to reimburse construction costs related to cafeteria and kitchen improvements at various campuses.
- A transfer of \$63,311 was made from the General Fund to the Internal Service Fund to repay deficit operations incurred by the District's self-insurance programs prior to termination.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS (continued)

D. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Capital Assets Not Being Depreciated				
Land	\$ 3,321,945	\$ --	\$ --	\$ 3,321,945
Construction in Progress	718,674	5,709,994	--	6,428,668
Total Capital Assets Not Being Depreciated	<u>4,040,619</u>	<u>5,709,994</u>	<u>--</u>	<u>9,750,613</u>
Capital Assets Being Depreciated				
Buildings and Improvements	118,774,367	423,723	(38,607)	119,159,483
Furniture and Equipment	15,124,993	1,014,393	(47,073)	16,092,313
Total Capital Assets Being Depreciated	<u>133,899,360</u>	<u>1,438,116</u>	<u>(85,680)</u>	<u>135,251,796</u>
Less Accumulated Depreciation				
Buildings and Improvements	(23,971,663)	(2,417,710)	15,614	(26,373,759)
Furniture and Equipment	(6,635,781)	(1,349,573)	46,073	(7,939,281)
Total Accumulated Depreciation	<u>(30,607,444)</u>	<u>(3,767,283)</u>	<u>61,687</u>	<u>(34,313,040)</u>
Net Capital Assets Being Depreciated	<u>103,291,916</u>	<u>(2,329,167)</u>	<u>(23,993)</u>	<u>100,938,756</u>
Governmental Capital Assets, Net	<u>\$107,332,535</u>	<u>\$ 3,380,827</u>	<u>\$ (23,993)</u>	<u>\$110,689,369</u>

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

Instruction	\$ 1,570,957
Instructional Resources and Media Services	312,684
School Leadership	109,251
Student (Pupil) Transportation	184,597
Food Services	131,855
Extracurricular Activities	180,830
Plant Maintenance and Operations	357,892
Data Processing Services	919,217
Total Depreciation Expense	<u>\$ 3,767,283</u>

E. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2010, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	Unavailable	Unearned	Total
Delinquent Property Taxes (General Fund)	\$ 1,366,778	\$ --	\$ 1,366,778
Delinquent Property Taxes (Debt Service Fund)	378,152	--	378,152
Existing Debt Allotment (State Aid)	--	47,292	47,292
Other Revenues (Various Funds)	--	529,659	529,659
Total	<u>\$ 1,744,930</u>	<u>\$ 576,951</u>	<u>\$ 2,321,881</u>

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

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, 2010:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Due Within One Year
Bonds Payable					
Carrying Value	\$ 107,132,532	\$ --	\$ 2,484,337	\$ 104,648,195	\$ 3,321,932
Unamortized Premium (Discout)	2,151,765	--	91,874	2,059,891	--
Deferred Bonds Payable	(337,238)	--	(29,564)	(307,674)	--
Total Bonds Payable	108,947,059	--	2,546,647	106,400,412	3,321,932
Accreted Interest Payable	11,747,685	1,344,544	1,510,663	11,581,566	1,350,547
Vested Sick Leave Benefits	46,288	16,803	--	63,091	63,091
Totals	<u>\$ 120,741,032</u>	<u>\$ 1,361,347</u>	<u>\$ 4,057,310</u>	<u>\$ 118,045,069</u>	<u>\$ 4,735,570</u>

Current requirements for principal and interest expenditures (bonds payable and accreted interest payable) are accounted for in the Debt Service Fund. 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, 2010:

Issue	Interest Rates	Final Maturity	Amounts Original Issue	Amounts Outstanding July 1, 2009	Issued	Retired	Amounts Outstanding June 30, 2010
School Building and Refunding Bonds, Series 1995A	5.75 - 7.90%	2022	\$ 24,395,012	\$ 4,369,301	\$ --	\$ 462,121	\$ 3,907,180
Refunding Bonds, Series 1996	3.25 - 5%	2015	19,978,116	3,067,700	--	688,312	2,379,388
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	2,710,000	--	135,000	2,575,000
School Building and Refunding Bonds, Series 2006A	4 - 5%	2033	67,705,994	66,894,174	--	863,904	66,030,270
Refunding Bonds, Series 2007	4%	2020	4,861,632	4,440,000	--	335,000	4,105,000
School Building Bonds, Series 2008	Variable	2037	22,695,000	22,695,000	--	--	22,695,000
Total Bonds Payable				<u>\$107,132,532</u>	<u>\$ --</u>	<u>\$ 2,484,337</u>	<u>\$104,648,195</u>

2. Advance Refunding / Deferred Bonds Payable

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. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt by Proprietary Activities*, the difference between the book value of the old debt and the amount required to retire the debt is deferred and will be amortized over the original life of the old bonds or the life of the new bonds, whichever is less.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Obligations (continued)

3. Accreted Interest Payable

The Premium Capital Appreciation Bonds (Series 1995A, 1996, 1998, 2006A and 2007) 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, 2010.

	Balance June 30, 2009	Additions	Retired	Balance June 30, 2010
Accreted Interest Payable	\$ 11,747,685	\$ 1,344,544	\$ 1,510,663	\$ 11,581,566

Accreted interest payable of \$1,510,663 was paid by the Debt Service Fund during the year ended June 30, 2010.

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
2011	\$ 2,471,932	\$ 5,464,592	\$ 7,936,524
2012	2,645,716	5,452,258	8,097,974
2013	2,631,755	5,490,741	8,122,496
2014	2,625,745	5,519,233	8,144,978
2015	3,678,763	4,431,038	8,109,801
2016 - 2020	21,158,792	19,871,875	41,030,667
2021 - 2025	17,925,492	22,148,762	40,074,254
2026 - 2030	24,325,000	7,572,908	31,897,908
2031 - 2035	19,035,000	2,160,455	21,195,455
2036 - 2040	8,150,000	156,465	8,306,465
Totals	\$104,648,195	\$ 78,268,327	\$182,916,522

In August 2009, the Board of Trustees authorized a partial redemption of its Variable Rate Unlimited Tax School Building Bonds, Series 2008 in the amount of \$850,000. This payment will be made with the scheduled August 1, 2010 payment. This amount has been included with the current portion (due within one year) of bonds payable.

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 bear 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, 2010, these bonds bear interest at the rate of 1.9%; this rate will be in effect until July 31, 2010.

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, 2010, the accumulated unpaid vacation leave of the District is considered to be immaterial.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

III. DETAILED NOTES ON ALL FUNDS (continued)

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

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, 2010, the District estimates that sick-leave benefits of \$63,091 will be paid to retiring employees during the year ending June 30, 2011. This amount has been recorded as a liability in the District's financial statements.

I. Revenue from Local and Intermediate Sources

During the year ended June 30, 2010, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 23,451,300	\$ --	\$ 8,962,993	\$ --	\$ 32,414,293
Penalties, Interest and Other	260,163	--	86,856	--	347,019
Tax-Related Income	23,711,463	--	9,049,849	--	32,761,312
Investment Income	7,752	323	9,611	23,696	41,382
Food Sales	--	983,449	--	--	983,449
Co-curricular Student Activities	144,795	--	--	--	144,795
Gifts and Bequests	--	153,205	--	--	153,205
Other	184,206	697,460	--	804	882,470
Total	<u>\$ 24,048,216</u>	<u>\$ 1,834,437</u>	<u>\$ 9,059,460</u>	<u>\$ 24,500</u>	<u>\$ 34,966,613</u>

J. Nonmonetary Transactions

During the year ended June 30, 2010, the District received \$146,755 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 Statement
June 30, 2010

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. Except as discussed below, 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

Through August 31, 2009, employees were covered by the District's partially self-insured health insurance plan (the Plan). The District contributed an average of \$300 per month per employee to the Plan. Many employees authorized payroll withholdings to pay contributions for optional dependent coverages. All contributions were transferred to the Internal Service Fund, which operated like a partially self-funded pool. The Plan does not qualify as a pure self-insurance pool because the Plan administrator, Blue Cross Blue Shield, makes the final decision regarding the payment or rejection of claims. The Plan was authorized by Section 21.922, Texas Education Code, or Article 3.51-2, Texas Insurance Code, and was documented by contractual agreement.

The contract between the District and the Plan administrator is renewable periodically and terms of coverage and contribution costs are included in the contractual provisions. In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through ReliaStar Life Insurance Company, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. The latest financial statements for ReliaStar Life Insurance Company are available at the Texas State Board of Insurance in Austin, Texas.

The following table indicates the changes in claims liabilities for the year ended June 30, 2010:

Amount of Claims Liabilities - July 1, 2009	\$ 465,835
Incurred Claims	796,626
Payments on Claims	<u>(1,262,461)</u>
Amount of Claims Liabilities - June 30, 2010	<u><u>\$ --</u></u>

As of September 1, 2009, 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. Workers' Compensation Insurance

Through August 31, 2009, the District met its statutory workers' compensation obligations through participation in the East Texas Educational Insurance Association (the "Fund") administered by Claims Administrative Services, Inc. The District is responsible for the payment of all claims until a certain threshold is reached. Whenever the claims exceed the threshold, a commercial insurance policy pays the excess claims. The Fund's specific retention loss is \$225,000, with an aggregate limit of \$13,798,016; the District's maximum fund loss is \$395,658. Premiums of \$13,746 for this insurance were recognized by the District through August 31, 2009.

The unfunded claim benefit obligation at June 30, 2010 included (1) reported and unpaid claims of \$29,785 and (2) an estimate of incurred and unreported claims of \$0. This liability has been assumed by the District's General Fund with the closing of the Internal Service Fund as of June 30, 2010.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

IV. OTHER INFORMATION (continued)

A. Risk Management (continued)

2. Workers' Compensation Insurance (continued)

The following table indicates the changes in claims liabilities for the year ended June 30, 2010:

Amount of Claims Liabilities - July 1, 2009	\$	233,325
Incurred Claims		20,298
Change in Estimated Claims		(104,896)
Payments on Claims		(118,942)
Amount of Claims Liabilities - June 30, 2010	\$	<u>29,785</u>

As of September 1, 2009, 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 public employee retirement system. It is 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

2. Participation

All employees of the District employed for one-half or more of the standard workload and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C Section 822.002, participate in TRS as a condition of employment. The payroll for District employees covered by TRS for the year ended June 30, 2010 was \$36,952,509 and the District's total payroll was \$39,285,047.

3. Retirement

Employees who retire on or after age 65 with five years of credited service or when age plus years of credited service equal 80 are entitled to a normal retirement benefit. Vested employees may retire at or after age 55 with at least 5 years of service or any age below 50 with 30 years of credited service and receive reduced benefits. An employee is fully vested after five years of creditable service and is entitled to any benefit for which eligibility requirements have been met.

4. Funding Policy

Contribution requirements are not actuarially determined but are legally established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; and (2) a state statute prohibits benefit improvements or contribution reductions 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. State law provides for a member contribution rate of 6.4% fiscal years 2010, 2009 and 2008 and a state contribution rate of 6.644 for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008. In certain instances the District is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period September through December 2009 and increased to 6.644% for the period of January through June 2010.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

IV. OTHER INFORMATION (continued)

B. Defined Benefit Pension Plan (continued)

4. Funding Policy (continued)

State contributions to TRS made on behalf of the District's employees for the years ended June 30, 2010, 2009 and 2008 were \$1,898,900, \$1,852,093 and \$1,762,008, respectively. The payments made by the State on behalf of the District are reflected in the accompanying financial statements as both revenues and expenditures, in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. The District's employees' contributions to TRS for the years ended June 30, 2010, 2009 and 2008 were \$2,359,375, \$2,312,470, and \$2,208,904, respectively, equal to the required contributions for each period. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ended June 30, 2010, 2009 and 2008 were \$519,956, \$532,996 and \$527,536, respectively, equal to the required contributions for the period.

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, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

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. The State of Texas and active public school employee contribution rates were 1% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended June 30, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$288,587, \$340,616, and \$322,937, respectively, the active member contributions were \$235,781, \$226,204, and \$208,366, respectively, and the District's contributions were \$202,758, \$218,257, and \$217,578, respectively, which equaled the required contributions each year.

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 \$92,039, \$81,663 and \$79,099 for the years ended June 30, 2010, 2009 and 2008, 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.

Sherman Independent School District
Notes to Financial Statement
June 30, 2010

IV. OTHER INFORMATION (continued)

D. Commitments and Contingencies (continued)

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, 2010.

3. Construction Contracts

The District is involved in one construction project of the construction of an administrative service center. Contracts totaling approximately \$11,994,000 have been executed with an architectural firm and a general contractor for this project. Costs of approximately \$6,010,000 have been incurred under the contracts as of June 30, 2010. The above projects are anticipated to be completed during the fiscal year ending June 30, 2011.

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 Statement Number 14. Parties outside of the District's control appoint the directors of the Foundation and, therefore, the Foundation does not meet the criteria for inclusion within the District's reporting entity.

F. Subsequent Events

The interest rate on the District's Variable Rate Unlimited Tax School Building Bonds, Series 2008 has been recalculated by the remarketing agent to 1% effective August 1, 2010; this rate will be effective through July 31, 2011. This decrease in the interest rate will save the District approximately \$197,000 in interest costs during the period from August 1, 2010 through July 31, 2011.

The District has approved a partial redemption of its Variable Rate Unlimited Tax School Building Bonds, Series 2008 in the amount of \$1,500,000. This redemption will save the District approximately \$1,350,000 in future interest costs over the term of these bonds.

Required Supplementary Information

**Sherman Independent School District
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2010**

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	\$ 23,070,000	\$ 23,179,268	\$ 24,048,216	\$ 868,948
5800 State Program Revenues	21,173,450	21,866,141	21,769,682	(96,459)
5900 Federal Program Revenues	280,000	280,000	257,500	(22,500)
5020 Total Revenues	<u>44,523,450</u>	<u>45,325,409</u>	<u>46,075,398</u>	<u>749,989</u>
Expenditures				
0011 Instruction	26,954,010	27,027,025	27,751,794	(724,769)
0012 Instructional Resources and Media Services	722,768	707,474	746,218	(38,744)
0013 Curriculum and Instructional Staff Development	769,782	738,961	597,076	141,885
0021 Instructional Leadership	534,487	533,896	548,832	(14,936)
0023 School Leadership	2,724,656	2,707,478	2,853,708	(146,230)
0031 Guidance, Counseling and Evaluation Services	1,402,412	1,387,033	1,553,352	(166,319)
0032 Social Work Services	--	--	341	(341)
0033 Health Services	594,280	581,759	543,328	38,431
0034 Student (Pupil) Transportation	1,181,564	1,387,498	1,383,101	4,397
0036 Extracurricular Activities	1,170,982	1,176,416	1,141,141	35,275
0041 General Administration	1,349,779	1,469,975	1,572,258	(102,283)
0051 Plant Maintenance and Operations	5,594,720	5,631,579	5,591,935	39,644
0052 Security and Monitoring Services	219,046	279,415	280,946	(1,531)
0053 Data Processing Services	714,875	729,540	741,188	(11,648)
0081 Facilities Acquisition and Construction	--	377,271	118,673	258,598
0099 Other Intergovernmental Charges	561,000	561,000	539,776	21,224
6030 Total Expenditures	<u>44,494,361</u>	<u>45,296,320</u>	<u>45,963,667</u>	<u>(667,347)</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>29,089</u>	<u>29,089</u>	<u>111,731</u>	<u>82,642</u>
Other Financing Sources (Uses)				
7912 Sale of Real or Personal Property	--	--	20,548	20,548
8911 Transfers Out	--	--	(63,311)	(63,311)
7080 Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(42,763)</u>	<u>(42,763)</u>
1200 Net Change in Fund Balances	29,089	29,089	68,968	39,879
0100 Fund Balances - July 1 (Beginning)	<u>8,050,822</u>	<u>8,050,822</u>	<u>8,050,822</u>	<u>--</u>
3000 Fund Balances - June 30 (Ending)	<u>\$ 8,079,911</u>	<u>\$ 8,079,911</u>	<u>\$ 8,119,790</u>	<u>\$ 39,879</u>

Other Schedules (Required by TEA)

**Sherman Independent School District
Schedule of Delinquent Taxes Receivable
Year Ended June 30, 2009**

Last Ten Years Ended August 31 / June 30	Tax Rates		3 Assessed / Appraised Value for School Tax Purposes
	1 Maintenance	2 Debt Service	
2001 and prior years			
2002	1.50000	0.19000	1,564,053,905
2003	1.50000	0.19000	1,629,265,688
2004	1.50000	0.19000	1,660,923,049
2005	1.50000	0.18000	1,678,941,580
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 (School year under audit)	1.04000	0.40000	2,299,178,397
1000	TOTALS		

Exhibit J-1

10	20	31	32	40	50
Beginning Balance 07/01/2009	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 06/30/2010
\$ 183,144	\$ --	\$ 4,435	\$ 562	\$ (16,745)	\$ 161,402
96,450	--	1,218	154	(850)	94,228
90,940	--	1,310	166	(1,018)	88,446
110,263	--	2,529	320	(3,491)	103,923
150,379	--	12,634	1,516	(1,256)	134,973
149,728	--	17,253	2,070	2,598	133,003
145,757	--	(39,124)	(7,425)	(90,562)	101,744
233,103	--	12,743	4,044	(88,645)	127,671
1,023,737	--	491,020	188,854	(82,107)	261,756
--	33,035,874	22,863,018	8,793,468	(282,220)	1,097,168
<u>\$ 2,183,501</u>	<u>\$ 33,035,874</u>	<u>\$ 23,367,036</u>	<u>\$ 8,983,729</u>	<u>\$ (564,296)</u>	<u>\$ 2,304,314</u>

Sherman Independent School District
Schedule of Expenditures for Computation of Indirect Costs for 2011-2012
General and Special Revenue Funds
Year Ended June 30, 2010

Exhibit J-2

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 240,294	\$ 863,986	\$ --	\$ --	\$ 1,104,280
6149	Leave for Separating Employees in Functions 41 and 53	--	--	--	--	--	--	--
6149	Leave for Separating Employees not in Functions 41 and 53	--	--	--	--	--	--	--
6211	Legal Services	--	--	103,025	--	--	--	103,025
6212	Audit Services	--	--	--	30,500	--	--	30,500
6213	Tax Appraisal and Collection	--	561,069	--	--	--	--	561,069
621X	Other Professional Services	4,178	--	173	10,921	--	--	15,272
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,100	--	2,340	7,300	--	--	10,740
6240	Contract Maintenance and Repair	--	--	8	55,345	--	--	55,353
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	11,233	13,529	--	--	24,762
6290	Miscellaneous Contracted Costs	--	--	491	69,690	--	--	70,181
6320	Textbooks and Reading	--	--	696	554	--	--	1,250
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies and Materials	528	--	5,814	32,139	--	--	38,481
6410	Travel, Subsistence and Stipends	8,820	--	3,609	10,050	--	--	22,479
6420	Insurance and Bonding Costs	28,171	--	1,115	1,432	--	--	30,718
6430	Election Costs	24,204	--	--	--	--	--	24,204
6490	Miscellaneous Operating Costs	10,235	--	9,215	37,706	--	--	57,156
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	1,302	1,302
6000	TOTAL	\$ 77,236	\$ 561,069	\$ 378,013	\$ 1,133,152	\$ --	\$ 1,302	\$ 2,150,772

Total expenditures for General and Special Revenue Funds (9) \$ 58,341,657

Less: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 630,150
Total Debt and Lease (6500)	(11) \$ --
Plant Maintenance (Function 51, 6100 - 6400)	(12) \$ 5,880,754
Food (Function 35, 6341 and 6499)	(13) \$ 1,309,436
Stipends (6413)	(14) \$ --
Column 4 (above) - Total Indirect Cost	<u>\$ 1,133,152</u>
Subtotal	<u>\$ 8,953,492</u>
Net Allowed Direct Cost	<u>\$ 49,388,165</u>

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 118,909,213
Historical Cost of Buildings over 50 years old	(16) \$ 7,393,741
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ --
Total Cost of Furniture and Equipment before Depreciation (1530 and 1540)	(18) \$ 16,388,940
Historical Cost of Furniture and Equipment over 16 years old	(19) \$ 118,270
Amount of Federal Money in Furniture and Equipment (Net of #19)	(20) \$ --

(8) Note A - No amounts for Function 53 expenditures and \$539,776 in Function 99 expenditures are included in this report on administrative costs.

**Sherman Independent School District
Fund Balance and Cash Flow Calculation Worksheet
General Fund as of June 30, 2010**

Exhibit J-3

UNAUDITED

1.	Total General Fund Balance as of 6/30/2010		\$ 8,119,790
2.	Total Reserved Fund Balance	\$ 498,716	
3.	Total Designated Fund Balance	11,183	
4.	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--	
5.	Estimate of Two Month's Average Cash Disbursements During the Regular School Session	5,500,000	
6.	Estimate of delayed payments from state sources (58XX)	5,372,956	
7.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--	
8.	Estimate of delayed payments from federal sources (59XX)	--	
9.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--	
10.	Optimum Fund Balance and Cash Flow (Lines 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)	<u> </u>	<u>11,382,855</u>
11.	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)		<u><u>\$ (3,263,065)</u></u>

Explanation for Net Positive Undesignated Unreserved General Fund Balance:
Not Applicable

**Sherman Independent School District
Budgetary Comparison Schedule
Child Nutrition Program
Year Ended June 30, 2010**

Exhibit J-4

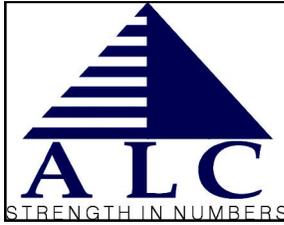
Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)	
	Original	Final			
Revenues					
5700	Local and Intermediate Sources	\$ 1,075,000	\$ 1,075,000	\$ 983,872	\$ (91,128)
5800	State Program Revenues	20,000	20,000	21,088	1,088
5900	Federal Program Revenues	2,260,000	2,469,000	2,664,020	195,020
5020	Total Revenues	<u>3,355,000</u>	<u>3,564,000</u>	<u>3,668,980</u>	<u>104,980</u>
Expenditures					
0035	Food Services	3,106,000	3,280,000	3,221,097	58,903
0051	Plant Maintenance and Operations	249,000	284,000	255,598	28,402
6030	Total Expenditures	<u>3,355,000</u>	<u>3,564,000</u>	<u>3,476,695</u>	<u>87,305</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>--</u>	<u>192,285</u>	<u>192,285</u>
Other Financing Sources (Uses)					
8911	Transfers Out	<u>--</u>	<u>--</u>	<u>(250,000)</u>	<u>(250,000)</u>
7080	Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(250,000)</u>	<u>(250,000)</u>
1200	Net Change in Fund Balances	--	--	(57,715)	(57,715)
0100	Fund Balances - July 1 (Beginning)	<u>283,311</u>	<u>283,311</u>	<u>283,311</u>	<u>--</u>
3000	Fund Balances - June 30 (Ending)	<u>\$ 283,311</u>	<u>\$ 283,311</u>	<u>\$ 225,596</u>	<u>\$ (57,715)</u>

**Sherman Independent School District
Budgetary Comparison Schedule
Debt Service Fund
Year Ended June 30, 2010**

Exhibit J-5

Data Control Codes	<u>Budgeted Amounts</u>		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
5700 Local and Intermediate Sources	\$8,391,582	\$8,391,582	\$ 9,059,460	\$ 667,878
5800 State Program Revenues	50,000	50,000	22,646	(27,354)
5900 Federal Program Revenues	--	--	--	--
5020 Total Revenues	<u>8,441,582</u>	<u>8,441,582</u>	<u>9,082,106</u>	<u>640,524</u>
Expenditures				
0071 Debt Service - Principal on Long-Term Debt	1,182,403	1,182,403	2,484,337	(1,301,934)
0072 Debt Service - Interest on Long-Term Debt	7,181,179	7,181,179	5,493,644	1,687,535
0073 Debt Service - Bond Issuance Costs and Fees	78,000	78,000	95,990	(17,990)
6030 Total Expenditures	<u>8,441,582</u>	<u>8,441,582</u>	<u>8,073,971</u>	<u>367,611</u>
1200 Net Change in Fund Balances	--	--	1,008,135	1,008,135
0100 Fund Balances - July 1 (Beginning)	<u>5,574,356</u>	<u>5,574,356</u>	<u>5,574,356</u>	--
3000 Fund Balances - June 30 (Ending)	<u><u>\$5,574,356</u></u>	<u><u>\$5,574,356</u></u>	<u><u>\$ 6,582,491</u></u>	<u><u>\$ 1,008,135</u></u>

FEDERAL AWARDS SECTION



ADAMI, LINDSEY & COMPANY, L.L.P.

Certified Public Accountants

1800 TEAGUE DRIVE, SUITE 306
SHERMAN, TEXAS 75090

(903) 892-2727
FACSIMILE: (903) 868-9682
WWW.ADAMILINDSEY.COM

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

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
120 W. King
Sherman, Texas 75090

Members of the Board:

We have audited 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, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of finding and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. These items are listed as 2010-1 and 2010-2 in the accompanying schedule of findings and questioned costs. 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.

Board of Trustees
November 22, 2010

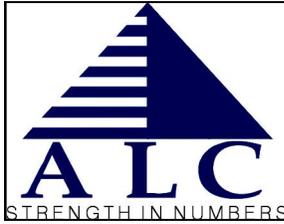
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District's Trustees, audit committee, administration, the Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Adami, Lindsey & Company, L.L.P.
Sherman, Texas
November 22, 2010



ADAMI, LINDSEY & COMPANY, L.L.P.

Certified Public Accountants

1800 TEAGUE DRIVE, SUITE 306
SHERMAN, TEXAS 75090

(903) 892-2727
FACSIMILE: (903) 868-9682
WWW. ADAMILINDSEY.COM

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

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Sherman Independent School District
120 W. King
Sherman, Texas 75090

Members of the Board:

Compliance

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 are applicable to each of its major federal programs for the year ended June 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Sherman Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of finding and questioned costs as item 2010-3.

Internal Control over Compliance

The administration of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control 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, as defined above.

The District's responses to the findings in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion of the responses.

This report is intended solely for the information and use of the District's Trustees, audit committee, administration, Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

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

Sherman, Texas
November 22, 2010

**Sherman Independent School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified opinion
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified that are not considered to be material weaknesses	Yes
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:	Unqualified opinion
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Major Federal Programs:

Title I Cluster	
Title I Grants to Local Educational Agencies	CFDA #84.010A
Title I Grants to Local Educational Agencies, Recovery Act	CFDA #84.389A
Special Education Cluster	
Special Education Grants to States	CFDA #84.027A
Special Education Preschool Grants	CFDA #84.173A
Special Education Grants to States, Recovery Act	CFDA #84.391A
Special Education - Preschool Grants, Recovery Act	CFDA #84.392A
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	CFDA #84.394A
Improving Teacher Quality State Grants	CFDA #84.367A
Twenty-First Century Community Learning Centers	CFDA #84.287C
Title III, Part A Limited English Proficiency	CFDA #84.365A

Dollar threshold used to distinguish between type A and type B federal programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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**Sherman Independent School District
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010**

Section II -- Findings Related to Financial Statements

2010-1 Information Technology Systems

Significant Deficiency in Controls

Observation - The District implemented new information technology systems for general ledger and payroll functions beginning July 1, 2009. The general ledger module did not function and the District reverted to its previous general ledger software package on September 1, 2009. The two systems (new payroll and old general ledger) were not integrated and, as a result, personnel costs were not routinely posted into the general ledger. The software company performed two imports of personnel expenditures to the general ledger during the year - one at approximately mid-year and another at year-end. Consequently, complete financial information was not available to the District's administration and Board of Trustees for review and analysis.

Recommendation - The District should work with the software company to receive timely importing of personnel expenditures to the general ledger until such time as the new general ledger package is functional for the District.

2010-2 Budgetary Controls

Significant Deficiency in Controls

Observation - The District's General Fund incurred expenditures in excess of its budgeted appropriations by \$667,347.

Recommendation - The District should perform comparisons of budget to actual throughout the year to ensure that requirements set forth by the Texas Education Agency are met. Budget amendments should be prepared as needed and submitted to the Board of Trustees for approval.

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

2010-3 Financial Reporting

Title I Program Cluster (84.010A and 84.389A)
Special Education Cluster (84.027A, 84.173A, 84.391A and 84.392A)
State Fiscal Stabilization Fund - Education State Grants (84.394A)
Twenty-First Century Community Learning Centers (84.287C)

Criteria - Grantees are required to submit reports of incurred expenditures to the grantor and the amounts reported should match the entity's financial records.

Condition - Expenditures submitted to grantors on certain interim reports did not match amounts reflected in the District's general ledger. By the end of the fiscal year, amounts reported to grantors did match the District's general ledger.

Questioned Costs - None

Cause - See Finding 2010-1. The District compiled an estimation of personnel expenditures from sources other than its general ledger.

Effect - The District did not comply with financial reporting requirements during interim periods in the year.

**Sherman Independent School District
Summary Schedule of Prior Year Findings
Year Ended June 30, 2010**

Prior Year Findings

None

**Sherman Independent School District
Corrective Action Plan
Year Ended June 30, 2010**

2010-1 Information Technology Systems

Responsible Party - Assistant Superintendent of Finance

Corrective Action - The District will require the software company to import payroll data after each payroll run is completed.

Expected Completion Date - Completed August 2010

2010-2 Budgetary Controls

Responsible Party - Assistant Superintendent of Finance

Corrective Action - Budget to actual expenditures will be monitored each month to insure that actual expenditures do not exceed budgeted amounts. Budget amendments will be prepared and submitted to the Board of Trustees for approval.

Expected Completion Date - Completed August 2010

2010-3 Financial Reporting

Responsible Party - Assistant Superintendent of Finance

Corrective Action - The District will require the software company to import payroll data after each payroll run is completed. Expenditures reported to grantors will match amounts in the District's general ledger.

Expected Completion Date - Completed August 2010

**Sherman Independent School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010**

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			
Passed Through Texas Education Agency:			
Title 1, Part A - Improving Basic Programs ***	84.010A	10610101091906	\$ 1,386,687
Title 1, Part D, Subpart 2 - Delinquent Programs ***	84.010A	10610103091906	133,804
Total CFDA Number 84.010A			<u>1,520,491</u>
Passed Through Texas Education Agency:			
IDEA-B Formula **	84.027A	106600010919066600	1,302,121
IDEA-B Formula, Deaf **	84.027A	106600010919066601	5,282
IDEA-B Discretionary (Deaf) **	84.027A	106600020919066673	8,117
Passed Through Region X Education Service Center:			
IDEA-B Discretionary **	84.027A		2,040
Total CFDA Number 84.027A			<u>1,317,560</u>
Passed Through Texas Education Agency:			
Title IV - Safe and Drug-Free Schools and Communities	84.186A	10691001091906	<u>21,691</u>
Passed Through Texas Education Agency:			
Title II Part D Enhancing Education through Technology	84.318X	10630001091906	<u>11,001</u>
Passed Through Texas Education Agency:			
Title II Part A Teacher / Principal Training	84.367A	10694501091906	<u>395,365</u>
Passed Through Texas Education Agency:			
Vocational Education Basic Grant	84.048A	10420006091906	<u>80,950</u>
Passed Through Texas Education Agency:			
Title III, Part A Limited English Proficiency	84.365A	10671001091906	<u>114,336</u>
Passed Through Texas Education Agency:			
IDEA-B Preschool **	84.173A	106610010919066610	45,721
IDEA-B Preschool, Deaf **	84.173A	106610010919066611	1,335
Total CFDA Number 84.173A			<u>47,056</u>
Passed Through Texas Education Agency:			
IDEA - C, Early Intervention (Deaf)	84.181A	103911010919063911	<u>439</u>
Passed Through Texas Education Agency:			
21st Century Community Learning Centers	84.287C	096950137110040	<u>440,000</u>
Passed Through Texas Education Agency:			
State Fiscal Stabilization Fund	84.394A	10557001091906	<u>1,699,079</u>
Passed Through Texas Education Agency:			
Special Education Grants to States, Recovery Act **	84.391	10554001091906	<u>1,004,504</u>
Passed Through Texas Education Agency:			
Special Education - Preschool Grants, Recovery Act **	84.392	10555001091906	<u>21,729</u>

Continued

**Sherman Independent School District
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2010**

(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 EDUCATION (Continued)			
Passed Through Texas Education Agency:			
Title I Grants to Local Educational Agencies, Recovery Act ***	84.389A	10551003091906	79,200
Passed Through Region X Education Service Center:			
Title I Grants to Local Educational Agencies, Recovery Act ***	84.389A	10551001057950	236,019
Total CFDA Number 84.389			<u>315,219</u>
Passed Through Texas Education Agency:			
Education Technology State Grants, Recovery Act	84.386A	10553001091906	<u>22,089</u>
Passed Through Texas Education Agency:			
Grants for State Assessments and Related Activities	84.369A	69550902	<u>7,185</u>
Passed Through Region X Education Service Center:			
Title I-C Migrant Project	84.011	10615001057950	<u>11,007</u>
Passed Through Region X Education Service Center:			
Education for Homeless Children and Youth, Recovery Act	84.387	A09-019	<u>37,212</u>
Passed Through Grayson County College:			
Carl Perkins Vocational Education - Tech Prep	84.243	101711	<u>1,393</u>
Passed Through University of Texas at Dallas:			
Education for Homeless Children and Youth (2009-2010)	84.196	00-047	14,045
Passed Through Region X Education Service Center:			
Education for Homeless Children and Youth (2008-2009)	84.196	99040	11,250
Education for Homeless Children and Youth (2009-2010)	84.196	00-047	34,806
Total CFDA Number 84.196			<u>60,101</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u><u>\$ 7,128,407</u></u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Region X Education Service Center:			
Head Start (2008-2009)	93.600	09CH0391	\$ 6
Head Start (2009-2010)	93.600	10CH0391	514,362
Early Head Start (2008-2009)	93.600	09CH0391	115
Early Head Start (2009-2010)	93.600	10CH0391	25,817
Total CFDA Number 93.600			<u>540,300</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u><u>\$ 540,300</u></u>

Exhibit K-1 (Continued)

(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 AGRICULTURE			
Passed Through Texas Education Agency:			
National School Lunch Program * (2008-2009)	10.555	71300901	\$ 263,509
National School Lunch Program * (2009-2010)	10.555	71301001	1,516,974
Passed Through Texas Department of Human Services:			
USDA Commodities	10.555		146,755
Total CFDA Number 10.555			<u>1,927,238</u>
Passed Through Texas Education Agency:			
National School Breakfast Program * (2008-2009)	10.553	71400901	105,505
National School Breakfast Program * (2009-2010)	10.553	71401001	631,277
Total CFDA Number 10.553			<u>736,782</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 2,664,020</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 10,332,727</u>

* Indicates child nutrition clustered programs.

** Indicates special education clustered programs.

*** Indicates Title I clustered programs.

Federal revenues in the amount of \$152,605 were received in the General Fund for the School Health and Related Services (SHARS) programs for special education students. These are not required to be reported on the Schedule of Expenditures of Federal Awards.

Basis for Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Sherman Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.