

**SHELDON INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2013

SHELDON INDEPENDENT SCHOOL DISTRICT
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CERTIFICATE OF THE BOARD

Sheldon Independent School District
Name of School District

Harris
County

101-924
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2013, at a meeting of the board of trustees of such school district on January 21, 2014.


Board President


Board Secretary

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Sheldon Independent School District
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Trustees
Sheldon Independent School District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities as of August 31, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 14 and 54 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, and required Texas Education Agency ("TEA") schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements, except where marked "unaudited". The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

To the Board of Trustees
Sheldon Independent School District

The combining and individual nonmajor fund financial statements, and required TEA schedules, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the combining and individual nonmajor fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance as the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
January 21, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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SHELDON INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sheldon Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2013.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$60,907,095 (*net position*). Of this amount, \$21,743,428 (unrestricted net position) may be used to meet the District's ongoing obligations to students and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$58,076,882 an increase of \$9,698,385 in comparison with the prior year. The change in governmental fund balances was primarily due to the increase in the debt service fund balance of \$2,323,908 and the increase in the capital projects fund balance of \$5,619,327.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$19,170,181 or 30 percent of total general fund expenditures.
- The District's total bonded debt increased by \$8,468,672 (5 percent) during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements

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

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows of resources, and liabilities with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, Instructional Services Between Schools, Payments to Juvenile Justice Alternative Education Programs, and Appraisal District Fees.

The business-type activities include the District's tuition/fee based self-sustaining Early Learning Center Daycare, an employee child care program. Business-type activities are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 17 through 19 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental 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 nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects funds, all of which are considered to be major funds. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund.

The basic governmental fund financial statements can be found on pages 20 through 26 of this report.

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary fund

The propriety fund provides the same type of information as the government-wide financial statements, only in more detail. There are two types of proprietary funds. Enterprise funds are used to report the same function presented as business-type activities in the government-wide financial statements. As mentioned above in the government-wide definition, the District has one business-type activities or enterprise fund, which is the tuition-based self-sustaining employee child care program, Early Learning Center Daycare. The second type of proprietary fund is the Internal Service fund. Internal Service funds as an accounting device used to accumulate and allocate costs internally among the various functions. The District does not have any internal service funds to report. The basic proprietary fund financial statements can be found on pages 27 through 29 of this report.

Fiduciary fund

The fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The District maintains fiduciary funds for scholarships and student activities.

The basic fiduciary fund financial statements can be found on pages 30 through 31 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 through 52 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information can be found on pages 54 through 56 of this report.

Other information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 58 through 65 of this report.

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$60,907,095 at the close of the most recent fiscal year.

The District's investment in capital assets (e.g., capitalized bond and land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to \$8,826,828. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sheldon Independent School District's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012 as Restated	2013	2012	2013	2012
Current and other assets	\$ 67,510,699	\$ 56,234,442	\$ 29,160	\$ 28,283	\$ 67,539,859	\$ 56,262,725
Capital assets	179,090,986	175,101,074			179,090,986	175,101,074
Total Assets	246,601,685	231,335,516	29,160	28,283	246,630,845	231,363,799
Deferred Outflows of Resources						
Deferred charge on refunding	1,630,972	1,438,244			1,630,972	1,438,244
Total Deferred Outflows of Resources	1,630,972	1,438,244			1,630,972	1,438,244
Current liabilities	7,737,380	4,435,693	6,056	5,180	7,743,436	4,440,873
Long term liabilities	179,611,286	172,226,054			179,611,286	172,226,054
Total Liabilities	187,348,666	176,661,747	6,056	5,180	187,354,722	176,666,927
Net Position						
Net investment in capital assets	8,826,828	7,547,829			8,826,828	7,547,829
Restricted	30,336,839	27,847,551			30,336,839	27,847,551
Unrestricted	21,720,324	20,716,633	23,104	23,103	21,743,428	20,739,736
Total Net Position	\$ 60,883,991	\$ 56,112,013	\$ 23,104	\$ 23,103	\$ 60,907,095	\$ 56,135,116

Net position of \$30,336,839 are restricted for state and federal programs, debt service and local grants. The remaining balance of *unrestricted net position* \$21,743,428 may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position. The District's net position increased by \$4,771,979 during the current fiscal year primarily due to increases in property tax revenues as the result of increased property values.

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Sheldon Independent School District's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012 as Restated	2013	2012	2013	2012
Program Revenues						
Charges for services	\$ 824,622	\$ 798,508	\$ 337,844	\$ 280,892	\$ 1,162,466	\$ 1,079,400
Operating grants	12,063,681	12,335,684			12,063,681	12,335,684
General Revenues						
Property taxes	61,832,542	54,367,175			61,832,542	54,367,175
State aid	13,724,164	15,160,410			13,724,164	15,160,410
Interest earnings	422,747	403,347			422,747	403,347
Other	520,329	1,669,282			520,329	1,669,282
Total Revenues	89,388,085	84,734,406	337,844	280,892	89,725,929	85,015,298
Expenses						
Instruction	43,224,647	41,710,597			43,224,647	41,710,597
Instructional resources and media services	856,003	826,539			856,003	826,539
Curriculum and staff development	102,600	87,495			102,600	87,495
Instructional leadership	2,265,264	1,976,404			2,265,264	1,976,404
School leadership	4,421,074	4,212,811			4,421,074	4,212,811
Guidance, counseling, and evaluation services	1,956,672	1,899,830			1,956,672	1,899,830
Social work services	33,195	32,743			33,195	32,743
Health services	544,887	626,218			544,887	626,218
Student transportation	3,982,825	3,834,432			3,982,825	3,834,432
Food service	5,056,702	4,776,532			5,056,702	4,776,532
Extracurricular activities	1,970,374	1,939,763			1,970,374	1,939,763
General administration	1,937,795	1,914,466			1,937,795	1,914,466
Facilities maintenance and operations	8,125,727	7,789,991			8,125,727	7,789,991
Security and monitoring services	724,472	624,079			724,472	624,079
Data processing services	709,494	634,747			709,494	634,747
Community services	26,258	15,732	489,076	453,631	515,334	469,363
Interest on long-term debt	6,516,705	7,022,679			6,516,705	7,022,679
Bond issuance costs and fees	474,625	1,833,214			474,625	1,833,214
Facilities repairs and maintenance	744,805	529,448			744,805	529,448
Contracted instructional services between schools	352,969	2,120,821			352,969	2,120,821
Payments to Juvenile Justice Alternative Education Programs	2,356	5,372			2,356	5,372
Other intergovernmental charges	490,224	460,181			490,224	460,181
Total Expenses	84,519,673	84,874,094	489,076	453,631	85,008,749	85,327,725
Excess (deficiency) before special items and transfers	4,868,412	(139,688)	(151,232)	(172,739)	4,717,180	(312,427)
Special items	54,799				54,799	
Transfers	(151,233)	(186,552)	151,233	186,552		
Increase (Decrease) in Net Position	4,771,978	(326,240)	1	13,813	4,771,979	(312,427)
Beginning net position	56,112,013	56,438,253	23,103	9,290	56,135,116	56,447,543
Ending net position	\$ 60,883,991	\$ 56,112,013	\$ 23,104	\$ 23,103	\$ 60,907,095	\$ 56,135,116

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities

Governmental activities increased the District's net position by \$4,771,978. Key elements of this increase are as follows:

Revenues are generated primarily from three sources. State Aid Formula Grant, operating grants and contributions. Grants and contributions (\$25,787,845) represent 29 percent of total revenues and property taxes (\$61,832,542) represent 69 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$43,224,647), which represents 51 percent of total expenses. Plant maintenance and operations (\$8,125,727) represents 10 percent of total expenses. Interest on long-term debt (\$6,516,705) represents 8 percent of total expenses of the District. The remaining individual functional categories of expenses are each less than 6 percent of total expenses.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$58,076,882, an increase of \$9,698,385 in comparison with the prior year. The change in governmental fund balances was primarily due to the increase in the debt service fund balance combined with the increase in the capital projects fund balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$19,170,181, while total fund balance reached \$21,699,033. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 30 percent of total general fund expenditures, while total fund balance represents 34 percent of that same amount.

The fund balance of the District's general fund increased by \$1,426,723 during the current fiscal year primarily due to additional property tax revenues as a result of an increase in property values.

The debt service fund has a total fund balance of \$28,977,470, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$2,323,908 was attributable to increases in local tax revenues resulting from higher than estimated property values.

The capital projects fund has a total fund balance of \$6,229,212, all of which is restricted for authorized construction and technology projects/enhancements. The net increase in fund balance during the current year of \$5,619,327 was primarily due to issuance of debt for new capital projects during the year.

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

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

	Estimated Revenues
Original	\$ 64,997,560
Final	66,762,551
Total estimated revenues increase	\$ 1,764,991

	Appropriations
Original	\$ 65,425,355
Final	66,478,590
Total appropriations increase	\$ 1,053,235

The review of the final amended budget versus actual for the general fund reflected that revenues and expenditures were less than budgetary estimates. Fund balances were assigned in the prior years to meet the Chapter 41 payments.

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2013, amounts to \$179,090,986 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 2 percent.

	Balance September 1, 2012	Additions	Retirements and Transfers	Balance August 31, 2013
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Buildings and improvements	216,060,802	7,988,862		224,049,664
Furniture and equipment	9,979,198	188,208	(43,612)	10,123,794
Construction in progress		972,352		972,352
	<u>231,815,196</u>	<u>9,149,422</u>	<u>(43,612)</u>	<u>240,921,006</u>
Less accumulated depreciation for:				
Buildings and improvements	(50,578,512)	(4,460,461)		(55,038,973)
Furniture and Equipment	(6,135,610)	(693,213)	37,776	(6,791,047)
	<u>(56,714,122)</u>	<u>(5,153,674)</u>	<u>37,776</u>	<u>(61,830,020)</u>
Governmental Capital Assets	<u>\$ 175,101,074</u>	<u>\$ 3,995,748</u>	<u>\$ (5,836)</u>	<u>\$ 179,090,986</u>

Additional information on the District's capital assets can be found in Note 6, on pages 45 through 46 of the notes to the financial statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Long-term liabilities

At the end of the current fiscal year, the District had \$178,868,286 in bonded debt outstanding, an increase of \$8,468,672 over the previous year. The District's bonds are sold with an "Aaa" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Moody's Investors Service is "Aa2" for general obligation debt.

Changes to long-term debt, for the year ended August 31, 2013, are as follows:

	Balance August 31, 2012	Additions	Retirements	Balance August 31, 2013
General obligation bonds	\$ 167,492,264	\$ 29,760,000	\$ (22,664,016)	\$ 174,588,248
Amounts for issuance premiums	2,109,110	1,594,072	(167,088)	3,536,094
Accreted interest on premium compound interest bonds	798,240	61,688	(115,984)	743,944
	<u>\$ 170,399,614</u>	<u>\$ 31,415,760</u>	<u>\$ (22,947,088)</u>	<u>\$ 178,868,286</u>

Additional information on the District's long-term liabilities can be found in note 7, on pages 46 through 48 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

- Peak enrollment totaled 7,560 students, which is a 5 percent increase from the prior year. Enrollment growth is projected to continue at this rate.
- District staff totals 1,064 employees, which primarily consists of 490 teachers, 210 paraprofessionals and 234 auxiliary staff.
- The District maintains 10 campuses for instruction.
- The economic growth in the area will help the District offset any taxable property value declines.
- The total property tax will remain at \$1.43 per \$100 of assessed value for 2013-14.
- The voters of the District approved an eight cent increase to the M&O tax rate by reducing the I&S tax rate by the same amount. The additional revenue generated in the general fund will help to meet the increasing demands on the District's maintenance and operations.

All of these factors were considered in preparing the District's budget for the 2013 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Sheldon Independent School District, 11411 C.E. King Parkway, Houston, TX 77044-7192.

BASIC FINANCIAL STATEMENTS

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SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
August 31, 2013

Exhibit A-1

Data Control Codes	Governmental Activities	Business-type Activities	Total
Assets			
1110	\$ 54,882,547	\$ 41,711	\$ 54,924,258
1220	2,216,465		2,216,465
1240	1,406,333		1,406,333
1260	12,551	(12,551)	
1290	394,692		394,692
1300	496,823		496,823
Capital Assets, not subject to depreciation:			
1510	5,775,196		5,775,196
1580	972,352		972,352
Capital Assets, net of accumulated depreciation:			
1520	169,010,691		169,010,691
1530	3,332,747		3,332,747
1810	8,101,288		8,101,288
1000	246,601,685	29,160	246,630,845
Deferred Outflows of Resources			
1700	1,630,972		1,630,972
	1,630,972		1,630,972
Liabilities			
2110	3,030,211	3,163	3,033,374
2140	288,344		288,344
2150	795,430		795,430
2160	2,039,026	2,893	2,041,919
2177	1,000		1,000
2180	1,513,558		1,513,558
2300	69,811		69,811
Noncurrent Liabilities:			
2501	5,242,159		5,242,159
2502	174,369,127		174,369,127
2000	187,348,666	6,056	187,354,722
Net Position			
3200	8,826,828		8,826,828
Restricted for:			
3820	1,171,167		1,171,167
3850	29,165,672		29,165,672
3900	21,720,324	23,104	21,743,428
3000	\$ 60,883,991	\$ 23,104	\$ 60,907,095

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2013

Data Control Codes	Functions/Programs	Program Revenue		
		Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:				
11	Instruction	\$ 43,224,647	\$ 15,380	\$ 5,184,198
12	Instructional resources and media services	856,003		29,180
13	Curriculum and staff development	102,600		
21	Instructional leadership	2,265,264		81,769
23	School leadership	4,421,074		194,540
31	Guidance, counseling, and evaluation services	1,956,672		444,250
32	Social work services	33,195		
33	Health services	544,887		991,570
34	Student transportation	3,982,825		127,220
35	Food service	5,056,702	713,727	4,273,977
36	Extracurricular activities	1,970,374	95,515	32,140
41	General administration	1,937,795		69,330
51	Facilities maintenance and operations	8,125,727		181,833
52	Security and monitoring services	724,472		
53	Data processing services	709,494		13,330
61	Community services	26,258		17,319
72	Interest on long-term debt	6,516,705		423,025
73	Bond issuance costs and fees	474,625		
81	Facilities repairs and maintenance	744,805		
91	Contracted instructional services between schools	352,969		
95	Payments to Juvenile Justice Alternative Education Programs	2,356		
99	Payments to appraisal districts	490,224		
TG	Total governmental activities	84,519,673	824,622	12,063,681
Business-type activities				
01	Early Learning Center - Daycare	489,076	337,844	
TB	Total business-type activities	489,076	337,844	
TP	Total primary government	\$ 85,008,749	\$ 1,162,466	\$ 12,063,681

Data Control Codes

General revenues:

Taxes:

MT Property taxes, levied for general purposes

DT Property taxes, levied for debt service

SF State-aid formula grants

IE Investment earnings

MI Miscellaneous

S1 *Special item* - gain on sale of asset

FR Transfers

TR **Total general revenues, special items, and transfers**

CN Change in net position

NB **Net position - beginning**

PA Prior period adjustments

NE **Net position - ending**

See Notes to the Financial Statements

Exhibit B-1

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (38,025,069)	\$	\$ (38,025,069)
(826,823)		(826,823)
(102,600)		(102,600)
(2,183,495)		(2,183,495)
(4,226,534)		(4,226,534)
(1,512,422)		(1,512,422)
(33,195)		(33,195)
446,683		446,683
(3,855,605)		(3,855,605)
(68,998)		(68,998)
(1,842,719)		(1,842,719)
(1,868,465)		(1,868,465)
(7,943,894)		(7,943,894)
(724,472)		(724,472)
(696,164)		(696,164)
(8,939)		(8,939)
(6,093,680)		(6,093,680)
(474,625)		(474,625)
(744,805)		(744,805)
(352,969)		(352,969)
(2,356)		(2,356)
(490,224)		(490,224)
<u>(71,631,370)</u>		<u>(71,631,370)</u>
	<u>(151,232)</u>	<u>(151,232)</u>
	<u>(151,232)</u>	<u>(151,232)</u>
<u>(71,631,370)</u>	<u>(151,232)</u>	<u>(71,782,602)</u>
47,143,653		47,143,653
14,688,889		14,688,889
13,724,164		13,724,164
422,747		422,747
520,329		520,329
54,799		54,799
<u>(151,233)</u>	<u>151,233</u>	
<u>76,403,348</u>	<u>151,233</u>	<u>76,554,581</u>
4,771,978	1	4,771,979
57,938,453	23,103	57,961,556
<u>(1,826,440)</u>		<u>(1,826,440)</u>
<u>\$ 60,883,991</u>	<u>\$ 23,104</u>	<u>\$ 60,907,095</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2013

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund
Assets			
1110	\$ 24,755,859	\$ 20,268,370	\$ 8,143,024
Receivables:			
1220	3,282,623	791,940	
1230	(1,585,172)	(272,926)	
1240	753,831		
1250	Accrued interest		
1260	1,134,278	565,343	
1290	394,692		
1300	384,606		
1810		8,101,288	
1000 Total Assets	\$ 29,120,717	\$ 29,454,015	\$ 8,143,024
Liabilities and Fund Balance			
Liabilities:			
2110	\$ 1,031,170	\$	\$ 1,912,696
2150	795,430		
2160	1,985,272		
2170	556,894		1,116
2180	1,513,558		
2300	31,124		
2000 Total Liabilities	5,913,448		1,913,812
Deferred Inflows of Resources			
2600	1,508,236	476,545	
Total Deferred Inflows of Resources	1,508,236	476,545	
Fund Balance:			
Nonspendable:			
3410	384,606		
Restricted:			
3450	39,246		
3470			6,229,212
3480		28,977,470	
Assigned:			
3590	2,105,000		
3600	19,170,181		
3000 Total fund balances	21,699,033	28,977,470	6,229,212
4000 Total Liabilities, Deferred Inflows, and Fund Balances and Fund Balances	\$ 29,120,717	\$ 29,454,015	\$ 8,143,024

See Notes to the Financial Statements.

Exhibit C-1

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,715,294	\$ 54,882,547
	4,074,563
	(1,858,098)
652,502	1,406,333
3,341	1,702,962
	394,692
112,217	496,823
	8,101,288
<u>\$ 2,483,354</u>	<u>\$ 69,201,110</u>

\$ 86,345	\$ 3,030,211
	795,430
53,754	2,039,026
1,133,401	1,691,411
	1,513,558
38,687	69,811
<u>1,312,187</u>	<u>9,139,447</u>

	1,984,781
<u></u>	<u>1,984,781</u>

112,217	496,823
1,058,950	1,098,196
	6,229,212
	28,977,470
	2,105,000
	19,170,181
<u>1,171,167</u>	<u>58,076,882</u>
<u>\$ 2,483,354</u>	<u>\$ 69,201,110</u>

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SHELDON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
August 31, 2013

Exhibit C-2

Data Control Codes		
	Total fund balance, governmental funds	\$ 58,076,882
	Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	179,090,986
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	1,984,781
3	Deferred charge on refunding	1,630,972
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
4	General obligation bonds	(174,588,248)
5	Premiums on issuance	(3,536,094)
6	Accreted interest on premium compound interest bonds	(743,944)
7	Accrued compensated absences	(743,000)
8	Accrued interest payable	(288,344)
19	Total net position - governmental activities	<u><u>\$ 60,883,991</u></u>

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2013

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 47,636,336	\$ 15,044,464	\$ 3,602
5800	State program revenues	16,041,609		
5900	Federal program revenues	1,404,238		
5020	Total revenues	<u>65,082,183</u>	<u>15,044,464</u>	<u>3,602</u>
Expenditures				
Current:				
0011	Instruction	35,890,440		
0012	Instructional resources and media services	711,810		
0013	Curriculum and staff development	102,600		
0021	Instructional leadership	2,193,470		
0023	School leadership	4,228,766		
0031	Guidance, counseling and evaluation services	1,532,046		
0032	Social work services	33,195		
0033	Health services	493,029		
0034	Student transportation	3,402,560		
0035	Food services			
0036	Extracurricular activities	1,536,117		
0041	General administration	1,873,851		
0051	Facilities maintenance and operations	7,856,614		
0052	Security and monitoring services	724,472		
0053	Data processing services	718,142		
0061	Community services	2,859		
Debt service:				
0071	Principal and interest on long-term debt	525,000	4,284,016	
0072	Interest on long-term debt	219,809	6,413,959	
0073	Bond issuance costs and fees		474,625	
Capital outlay:				
0081	Facilities acquisition and construction	674,533		9,124,275
Intergovernmental:				
0091	Contracted instructional services between schools	352,969		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	2,356		
0099	Payments to appraisal districts	490,224		
6030	Total Expenditures	<u>63,564,862</u>	<u>11,172,600</u>	<u>9,124,275</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,517,321</u>	<u>3,871,864</u>	<u>(9,120,673)</u>
Other Financing Sources (Uses)				
7901	Refunding bonds issued		15,020,000	
7911	Issuance of bonds			14,740,000
7912	Sale of real or personal property	60,635		
7916	Premium or discount on issuance of bonds		1,594,071	
8911	Transfers out	(151,233)		
8949	Payment to refunded bond escrow agent		(18,162,027)	
7080	Total other financing sources (uses)	<u>(90,598)</u>	<u>(1,547,956)</u>	<u>14,740,000</u>
1200	Net change in fund balances	1,426,723	2,323,908	5,619,327
0100	Fund Balance - beginning	<u>20,272,310</u>	<u>26,653,562</u>	<u>609,885</u>
3000	Fund Balance - ending	<u>\$ 21,699,033</u>	<u>\$ 28,977,470</u>	<u>\$ 6,229,212</u>

See Notes to the Financial Statements.

Exhibit C-3

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 823,192	\$ 63,507,594
377,976	16,419,585
<u>7,964,022</u>	<u>9,368,260</u>
<u>9,165,190</u>	<u>89,295,439</u>
3,810,261	39,700,701
	711,810
	102,600
1,823	2,195,293
	4,228,766
354,320	1,886,366
	33,195
	493,029
	3,402,560
4,636,827	4,636,827
	1,536,117
	1,873,851
16,213	7,872,827
	724,472
	718,142
17,319	20,178
	4,809,016
	6,633,768
	474,625
	9,798,808
	352,969
	2,356
	490,224
<u>8,836,763</u>	<u>92,698,500</u>
<u>328,427</u>	<u>(3,403,061)</u>
	15,020,000
	14,740,000
	60,635
	1,594,071
	(151,233)
	<u>(18,162,027)</u>
	<u>13,101,446</u>
328,427	9,698,385
<u>842,740</u>	<u>48,378,497</u>
<u>\$ 1,171,167</u>	<u>\$ 58,076,882</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

For the Year Ended August 31, 2013

<u>Data Control Codes</u>	
Net change in fund balances - total governmental funds (from C-3)	\$ 9,698,385
<p>Amounts reported for governmental activities in the statement of activities (B-1) are different because:</p>	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.
	Capital Outlay 9,149,422
	Depreciation Expense (5,153,674)
2	Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.
	(5,837)
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.
	92,647
4	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.
	4,809,016
5	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.
	(31,354,071)
6	Payment to escrow agent for payment of refunded bonds
	18,162,027
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:</p>	
7	Decrease in interest payable not recognized in fund statements
	9,978
8	Increase in long-term portion of accrued compensated absences
	(743,000)
9	Amortization of deferred charges including bond premiums and deferred loss on refunding
	52,789
10	Accreted interest on capital appreciation bonds
	<u>54,296</u>
Change in net position of governmental activities (see B-1)	<u><u>\$ 4,771,978</u></u>

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUND

August 31, 2013

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
	Assets	
	Current Assets:	
1110	Cash and cash equivalents	\$ 41,711
1000	Total Assets	<u>41,711</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	3,163
2160	Accrued wages payable	2,893
2170	Due to other funds	12,551
2000	Total Liabilities	<u>18,607</u>
	Net Position	
3900	Unrestricted net position	23,104
3000	Total Net Position	<u>\$ 23,104</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended August 31, 2013

Exhibit D-2

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	Operating Revenues	
5739	Tuition	\$ 337,844
5020	Total Operating Revenues	<u>337,844</u>
	Operating Expenses	
6100	Payroll costs	457,644
6200	Purchased and contracted services	276
6300	Supplies and materials	11,155
6400	Claims expense and other operating expenses	20,001
6030	Total Operating Expenses	<u>489,076</u>
	Income (Loss) before Transfers	(151,232)
	Transfers	
7915	Transfers in	<u>151,233</u>
1200	Change in Net Position	1
0100	Net Position - beginning	<u>23,103</u>
3300	Net Position - ending	<u><u>\$ 23,104</u></u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT*Exhibit D-3***STATEMENT OF CASH FLOWS****PROPRIETARY FUND***Year Ended August 31, 2013*

	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 337,844
Cash payments to suppliers for goods and services	(16,122)
Cash payments to employees	(458,986)
Net Cash Provided by (Used for) Operating Activities	<u>(137,264)</u>
Cash Flows from Non-Capital Financing Activities:	
Advances from other funds	151,233
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>151,233</u>
Net Increase in Cash and Cash Equivalents	13,969
Cash and Cash Equivalents at Beginning of Year	27,742
Cash and Cash Equivalents at End of Year	<u>\$ 41,711</u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	<u>\$ 41,711</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 41,711</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (151,232)
Change in Assets and Liabilities:	
Decrease (increase) in Interfund Receivables/Payables	13,092
Increase (decrease) in Accounts Payable	2,218
Increase (decrease) in Accrued Wages Payable	(1,342)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (137,264)</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2013

Data Control Codes		810	865
		Scholarship Fund	Student Activity Fund
	Assets		
1110	Cash and cash equivalents	\$ 235,859	\$ 224,351
	Receivables:		
1250	Interest receivable		70
1260	Due from other Funds	1,000	
1000	Total Assets	<u>236,859</u>	<u>\$ 224,421</u>
	Liabilities		
2190	Due to student groups	<u>37,353</u>	<u>\$ 224,421</u>
2000	Total Liabilities	<u>37,353</u>	<u>\$ 224,421</u>
	Net Position		
3800	Restricted for scholarships	<u>\$ 199,506</u>	

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2013

Exhibit E-2

	810 Scholarship Fund
Additions	
Gifts and contributions	\$ 79,294
Earnings on investments	260
Total Additions	<u>79,554</u>
Deductions	
Scholarships awarded	60,350
Total deductions	<u>60,350</u>
Change in net position	19,204
Net position, beginning of year	<u>180,302</u>
Net position, end of year	<u><u>\$ 199,506</u></u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Sheldon Independent School District (District) is governed by a seven-member Board of Trustees (Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are; that it has a separately elected governing body; it is legally separate; and, it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable; and, considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are 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 when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.

Additionally, the District reports the following fund types:

- The *special revenue funds* are used to account for resources restricted to, or designated for, specific purposes by a grantor including federally-funded and state-funded grants. These grants are awarded to the District for the purpose of accomplishing specific educational tasks as defined in the grant awards.
- The *enterprise fund* is used to account for revenues and expenses related to the District's tuition/fee based employee child care program.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

Note 1 - Summary of Significant Accounting Policies (continued)

- *Private purpose trust funds* are used to account for resources legally held in trust under which principal and income benefits individuals, private organizations or other governments. The private purpose trust funds represent scholarship funds being held in trust for students.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Implementation of New Standards

In the current fiscal year, the District implemented the following new standards: GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements (“GASB 62”), which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (“GASB 63”), amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of the resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets. Implementation of GASB 63 is reflected in the financial statements.

GASB Statement 65, Items Previously Reported as Assets and Liabilities (“GASB 65”), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 is reflected in the financial statements.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value based on quoted market prices at August 31, 2013. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes and are shown net of an allowance for uncollectable accounts. Allowances for uncollectible tax receivable within the general and debt service funds are based on historical experience in collecting property taxes. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available if they are collected within 60 days of the end of the current fiscal period. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Harris County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Inventories and Prepaid Items

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations.

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, and furniture and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. 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 assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Buildings and improvements, and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15-60
Furniture and Equipment	7-25

Compensated Absences

The District’s employees earn sick leave and vacation benefits which may be accumulated each year. The District’s policy permits employees, upon retirement, who have worked in the District for a minimum of three consecutive years prior to their retirement to be compensated for their accumulated unused sick leave at their daily rate of pay, not to exceed the daily cost of a degreed substitute teacher. The District estimates that the liability for accumulated unpaid sick leave for all employees eligible to be \$743,000 as of August 31, 2013.

Long-term Obligations

The District’s long-term obligations consist of bond indebtedness, notes payable, and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses in the period incurred.

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for notes payable principal and interest expenditures are accounted for in the general fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities at August 31, 2013 was \$1,630,972.

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The amount of deferred inflows in the governmental funds related to unearned revenue for property taxes at August 31, 2013 was \$1,984,781.

Fund Equity

Beginning with fiscal year 2011, Sheldon Independent School District implemented GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, inventory has been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

Restricted fund balance – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund. The District has not committed any fund balance.

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

State Aid Adjustments	\$	200,000
Wealth Equalization Payments		85,000
Encumbrances		320,000
Emergency Repairs		1,500,000
	\$	<u>2,105,000</u>

Note 1 - Summary of Significant Accounting Policies (continued)

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Data Control Codes

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (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.

Use of Estimates

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

Comparative Data/Reclassifications

Comparative data for the prior year has not been presented in the District's financial statements.

Note 2 - Deposits and Investments

Cash Deposits

Deposits and investment transactions of the District are regulated by State statutes through provisions of Chapter 23, Subchapter E, Sections 23.71 through 23.8 (the School Depository Act) of the Texas Education Code and other Code sections referenced therein and through provisions of the Texas Revised Civil Statutes, Title 47, Articles 2529c and 2548a, regarding security for District funds in depository institutions.

In accordance with applicable statutes, the District has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the District incurs as a result of banking services received. All depository contracts have a term of two years commencing with the start of every odd-numbered fiscal year. Depository contracts are awarded on the basis of competitive bids received from area banks and can be awarded to more than one bank if the bids received are relatively equal.

Section 23.80 of the Texas Education Code provides that the depository shall not be compelled to accept time deposits from the proceeds of District debt issues; however, the depository is entitled to receive these funds under certain conditions.

Note 2 - Deposits and Investments (continued)

Cash Deposits (continued)

The District may place funds with the depository in interest and non-interest bearing accounts. Statutes and the depository contract require that all funds in the depository institution be fully secured by federal depository insurance or a combination of federal depository insurance and acceptable collateral securities and/or an acceptable surety bond. The collateral securities must be delivered to the District or placed with an independent trustee institution with safekeeping receipts delivered to the District and copies of the safekeeping receipts delivered to the Texas Education Agency. In accordance with State statutes pertaining to lawful collateralization of District deposits, safekeeping receipts are issued in the name of the depository with proper indication that the collateral securities are pledged by the depository to secure funds of the District. Acceptable collateral securities include direct obligations of the United States of America (U.S.), bonds of any agency of the U.S. (except Farmers Home Administration Insured Notes), Bonds of the State of Texas, or of any county, school district, city, or town of the State of Texas that have been rated A or better by Moody's Investors Service, Inc., as authorized by Chapter 2257 Collateral for Public Funds of the Government Code.

The District must approve all collateral securities prior to their being pledged. The depository can change collateral securities pledged to secure District funds only upon obtaining the written approval of the District.

The District is authorized by Section 20.42 of the Texas Education Code to place the proceeds from debt issues in properly secured or collateralized interest bearing time deposits with any Texas state or national bank having federal deposit insurance (FDIC) coverage for depositors or directly in bonds or other obligations of the U.S., provided that these time deposits cannot be cashed, sold or redeemed for an amount less than that originally invested by the District. Additionally, Section 23.80 of the Texas Education Code authorizes the District to invest in direct debt securities of the U.S. or other types of bonds, securities, warrants, etc., which the District is authorized by law to invest in. Cash includes petty cash on hand in various functional areas for use in routine operations and demand and time deposit accounts held by the depository bank.

All demand, money market, and time deposits in the depository bank were entirely covered by federal depository insurance and by acceptable collateral securities held in the District's name by an agent of the District at year end in accordance with provisions of the depository contract. Demand and time deposits at various banks, held on behalf of different student groups, were entirely covered by federal depository insurance at year end. Deposits were properly secured at all times.

Investments

The Board of Trustees of the District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The Public Funds Investment Act (the "Act") requires an annual audit of investment practices. Audit procedures in this area, conducted as part of the Audit, disclosed that in the area of investment practices, management reports and establishment of appropriate policies, the District was in substantial compliance with the requirements of the Act. Additionally, the investments and investment practices of the District are in compliance with the Trustees' investment policies.

Note 2 - Deposits and Investments (continued)

Investments (continued)

The District’s Investment Policy emphasizes safety of principal and liquidity, addresses investment diversification, yield and maturity and addresses the quality and capability of investment personnel. The Investment Policy includes a list of authorized investment instruments, a maximum allowable stated maturity of any individual investment and the maximum average dollar weighted maturity allowed. In addition, it includes an “Investment Strategy Statement” that specifically describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the Investment Policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas, or its agencies and instrumentalities;
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States, or its agencies and instrumentalities;
4. Certificates of deposit. Must be fully collateralized and guaranteed or insured by the FDIC;
5. Repurchase agreement. Must be fully collateralized, pledged to and held in the District’s name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, with a defined termination date, and placed through a primary government securities dealer;
6. Commercial paper. Must have a stated maturity of 270 days or fewer and a rating of not less than A-1/P-1 by two nationally recognized credit rating agencies; or a fully secured irrevocable letter of credit from a US bank and one A-1/P-1 credit rating;
7. Money Market funds. Must be approved by the Board and invest its funds only in investments approved by the Investment Policy; and
8. Public Funds Investment Pools. Must be approved by the Board and invest its funds only in investments approved by the Investment Policy.

A summary of the District’s cash and investments at August 31, 2013, are shown below:

	<u>Cash and Deposits</u>	<u>Money Market Mutual Funds</u>	<u>External Investment Pools</u>	<u>Investment Securities</u>	<u>Total</u>
Governmental Funds					
General Fund	103,090	\$ 2,682,849	\$ 21,969,920	\$	\$ 24,755,859
Debt Service Fund	2,578	1,100,597	19,165,195	8,101,288	28,369,658
Capital Projects Fund	33,725	983,973	7,125,326		8,143,024
Non-major Governmental Funds	449,444	203,647	1,062,203		1,715,294
Total Governmental Funds	<u>588,837</u>	<u>4,971,066</u>	<u>49,322,644</u>	<u>8,101,288</u>	<u>62,983,835</u>
Proprietary Funds	<u>41,711</u>				<u>41,711</u>
Fiduciary Funds	<u>460,210</u>				<u>460,210</u>
Total Cash and Investments	<u>\$ 1,090,758</u>	<u>\$ 4,971,066</u>	<u>\$ 49,322,644</u>	<u>\$ 8,101,288</u>	<u>\$ 63,485,756</u>

Note 2 - Deposits and Investments (continued)

Investments (continued)

The District's investments are insured, registered or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk. Custodial credit risk for investments is the risk that, in the event of failure by the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that a third party bank trust department hold all securities owned by the District.

The District holds all US government securities to maturity date. The District did not purchase any derivative investment products during the current year nor participate in any reverse purchase agreements or securities lending agreements during the fiscal year.

The following table includes the portfolio balance, credit rating and percentage of the portfolio balance by investment type of the District as of August 31, 2013:

Investment Type	Fair Market Value	S & P Credit Quality Ratings	Percentage of Investments
Local Government Investment Pools			
Lone Star	\$ 33,322,986	AAA	53.41%
TexStar	15,999,658	AAAm	25.64%
	<u>49,322,644</u>		
Investment Securities			
Federal National Mortgage Assn	8,101,288	A-1+	12.98%
Money Market Mutual Fund	4,971,066	Not Rated	7.97%
	<u>13,072,354</u>		
Total Investments	<u>\$ 62,394,998</u>		

Note 2 - Deposits and Investments (continued)

Local Government Investment Pools

The District participates in two Local Government Investment Pools: Texas Short Term Asset Reserve Program (TexSTAR) and Lone Star Investment Pool (Lone Star). The TexSTAR and Lone Star investment pools' investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

TexSTAR and Lone Star policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act of 1995, as amended. The value of the District's portion in TexSTAR and Lone Star are the same as the value of the shares. The external investment pool funds operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The external investment pool funds use amortized cost rather than market value to report net position to compute share price. Accordingly, the fair value of the positions of the pooled funds are the same as the value of the external investments pool funds shares. The funds are structured similar to a money market mutual fund which allows shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. At August 31, 2013, TexSTAR and Lone Star had a weighted average maturity of 52 days and 57 days, respectively. Although the external investment pool funds had a weighted average maturity of more than one day, the District considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Oversight Responsibility

Oversight responsibility includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. For the investment pools utilized by the District, oversight responsibility for each is as follows:

- **TexSTAR** - The State Comptroller of Public Accounts exercises responsibility over TexSTAR. Day to day administration of the Fund is performed by Federated Investors, Inc.
- **Lone Star** - The Local Government Investment Cooperative's governing body is a eleven-member Board of Directors all of whom are Participants of the Pool. Day to day administration of the Fund is administered by First Public, LLC and managed by Standish Mellon and American Beacon Advisors.

Ratings - TexSTAR is rated "AAAm" by Standards & Poors. Lone Star is rated "AAA" by Standard & Poors.

The Investments of the District are reported at fair value in accordance with Governmental Accounting Standards Board Statement (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The amount of increases or decreases in the fair value of investments for the year is included in Investment Income.

Note 2 - Deposits and Investments (continued)

At year-end, the District's cash and investments balances and the weighted average maturity of these investments were as follows:

	Fair Market Value	Weighted Average Maturity (Days)
Cash and deposits	\$ 866,890	N/A
Certificates of deposit	223,868	136
Investments:		
Local Government Investment Pools:		
Lone Star	33,322,986	57
TexStar	15,999,658	52
Investment Securities:		
Federal National Mortgage Assn	8,101,288	70
Money Market Mutual Fund	4,971,066	1
Total Investments	<u>62,394,998</u>	<u>53</u>
Total Cash and Investments	<u>\$ 63,485,756</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days, with the exception of bond proceeds that are matched to a specific cash flow; diversification; and by holding securities to maturity. In addition, the District shall not directly invest in an individual security maturing more than twenty-four months from the date of purchase.

Credit Risk:

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized credit rating organizations. As of August 31, 2013, the District's investment in TexSTAR was rated AAAM by Standard and Poor's. The District's investment in Lone Star Investment Pool was rated AAA by Standard and Poor's. The District's investments in Federal National Mortgage Association was rated A-1+ by Standard & Poor's.

Concentration of Credit Risk

State law and the District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity, scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

The investments are reported by the District at fair value. The amount of investment earnings during the year ended August 31, 2013 was \$422,747.

Note 3 - Receivables

Property taxes are considered available when collected within the current period. Property taxes are levied by October 1 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 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Central Appraisal District (CAD) of Harris County, Texas. Taxes are levied by the District's Board of Trustees based on the appraised values received from the CAD. Billing and collection of tax levies are performed by the District.

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures. Tax rates levied to finance general government and debt service expenditures for 2012-2013 were \$1.09 and \$0.34, respectively, based on an adjusted assessed property valuation of approximately \$3.64 billion resulting in an adjusted tax levy of approximately \$62.0 million. Allowances for uncollectible taxes are based on 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 from the Texas Legislature.

Net receivables, at August 31, 2013, consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds
Property Taxes	\$ 3,282,623	\$ 791,940	\$
Due from other governments	753,831		652,502
Interest			
Other	394,692		
Gross Receivables	4,431,146	791,940	652,502
Less allowance for doubtful accounts	(1,585,172)	(272,926)	
Net Total Receivables	\$ 2,845,974	\$ 519,014	\$ 652,502

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, unearned revenues reported in the governmental funds were for advanced collection of fees in the amount of \$69,811.

Note 4 - Due from other Governments

Amounts reported as due from other governments consist primarily of receivables due from state agencies for federal grant expenditure reimbursement and from the State for the District's state allotment.

Note 5 - Interfund Activities

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate fund. Additionally, some lending/borrowing may occur between two or more non-major governmental funds.

The composition of interfund balances as of August 31, 2013, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 1,134,278	\$ 556,894
Debt Service Fund	565,343	
Capital Projects Fund		1,116
Proprietary Funds		12,551
Fiduciary Funds	1,000	
Nonmajor Governmental Funds	3,341	1,133,401
	<u>\$ 1,703,962</u>	<u>\$ 1,703,962</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” During the 2013 fiscal year, the District made a transfer in the amount of \$151,233 from the general fund to the proprietary fund to cover an operating deficit associated with the Early Learning Center Daycare.

Note 6 - Capital Assets

Changes in Capital Assets

A summary of changes in general fixed assets for the year ended August 31, 2013, are as follows:

	<u>Balance September 1, 2012</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Construction in progress		972,352		972,352
Total Capital assets, not being depreciated	<u>5,775,196</u>	<u>972,352</u>		<u>6,747,548</u>
Capital assets, being depreciated:				
Buildings and improvements	216,060,802	7,988,862		224,049,664
Furniture and equipment	9,979,198	188,208	(43,612)	10,123,794
Total Capital assets, being depreciated	<u>226,040,000</u>	<u>8,177,070</u>	<u>(43,612)</u>	<u>234,173,458</u>
Less accumulated depreciation for:				
Buildings and improvements	(50,578,512)	(4,460,461)		(55,038,973)
Furniture and Equipment	(6,135,610)	(693,213)	37,776	(6,791,047)
Total Accumulated depreciation	<u>(56,714,122)</u>	<u>(5,153,674)</u>	<u>37,776</u>	<u>(61,830,020)</u>
Governmental Capital Assets	<u>\$ 175,101,074</u>	<u>\$ 3,995,748</u>	<u>\$ (5,836)</u>	<u>\$ 179,090,986</u>

Note 6 - Capital Assets (continued)

Depreciation expense has been charged to the following functions in the government-wide statements:

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 3,047,895
Instructional resources and media services	136,473
Instructional leadership	45,490
School leadership	136,473
Guidance, counseling and evaluation services	45,490
Health services	45,490
Student transportation	546,420
Food Services	399,876
Extracurricular activities	431,633
General administration	45,490
Plant maintenance and operations	227,454
Data processing services	45,490
	<u>\$ 5,153,674</u>

The District has active construction projects as of August 31, 2013. At fiscal year end, the District's commitments with contractors are as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Remaining Commitment</u>
Competition Gym	\$ 1,295,570	\$ 323,218

Note 7 - Long-Term Debt and Debt Service Requirements

General long-term debt consists of bonds payable and related accretion values on premium compound interest bonds. Bonds are payable solely from future revenues of the debt service fund, which consists principally of property taxes collected by the District, state existing debt and instructional facilities allotments and investment income.

A summary of general long-term debt transactions of the District for the year ended August 31, 2013, follows:

	<u>Balance August 31, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2013</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 167,492,264	\$ 29,760,000	\$ (22,664,016)	\$ 174,588,248	\$ 4,698,590
Premiums/discounts	2,109,110	1,594,072	(167,088)	3,536,094	
Accreted interest on premium compound interest bonds	798,240	61,688	(115,984)	743,944	407,299
Compensated absences payable		743,000		743,000	136,270
	<u>798,240</u>	<u>804,688</u>	<u>(115,984)</u>	<u>1,486,944</u>	<u>543,569</u>
	<u>\$ 170,399,614</u>	<u>\$ 32,158,760</u>	<u>\$ (22,947,088)</u>	<u>\$ 179,611,286</u>	<u>\$ 5,242,159</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Exhibit F-1

Note 7 - Long-Term Debt and Debt Service requirements (continued)

Bonded long-term debt, at August 31, 2013, is comprised of the following individual issues:

<u>Issue</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Unlimited Tax School Building Bonds, Series 2001B	0%	2015	\$ 8,000,000
Unlimited Tax School Building Bonds, Series 2005	0%	2020	3,000,000
Unlimited Tax School Building Bonds, Series 2005	3.70% to 4.50%	2035	8,425,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	5,150,000
Unlimited Tax School Building Bonds, Series 2006	4.00% to 5.00%	2036	14,550,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	0.00% to 5.00%	2037	42,107,819
Unlimited Tax School Building Bonds, Series 2008	0.00% to 5.00%	2038	16,210,000
Unlimited Tax Refunding Bonds, Series 2009	2.00% to 3.13%	2019	3,905,000
Unlimited Tax Refunding Bonds, Series 2010	1.75% to 4.00%	2027	17,689,999
Unlimited Qualified School Construction Bonds, Series 2010	0%	2027	8,200,000
Unlimited Tax School Building Bonds, Series 2010A	0.00% to 4.00%	2040	8,585,434
Unlimited Tax School Building Bonds, Series 2011	2.00% to 3.00%	2041	5,825,000
Unlimited Tax Refunding Bonds, Series 2011	2.00% to 3.00%	2028	3,394,996
Unlimited Tax School Building and Refunding Bonds, Series 2012	1.00% to 2.00%	2032	9,350,000
Unlimited Tax School Building and Refunding Bonds, Series 2013	3.00% to 3.50%	2043	20,195,000
			<u>\$ 174,588,248</u>

The District is in compliance with all significant bond compliance requirements.

Annual requirements to amortize all bonded long-term debt outstanding as of August 31, 2013, follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2014	\$ 4,698,590	\$ 7,340,566	\$ 12,039,156
2015	13,014,661	6,912,059	19,926,720
2016	5,935,000	6,395,241	12,330,241
2017	6,170,000	6,167,204	12,337,204
2018	6,410,000	5,927,218	12,337,218
2019-2023	37,900,000	25,540,797	63,440,797
2024-2028	44,309,997	18,132,664	62,442,661
2029-2033	26,235,000	9,718,770	35,953,770
2034-2038	25,065,000	3,392,431	28,457,431
2039-2043	4,850,000	377,564	5,227,564
	<u>\$ 174,588,248</u>	<u>\$ 89,904,514</u>	<u>\$ 264,492,762</u>

Note 7 - Long-Term Debt and Debt Service requirements (continued)

Accreted Interest on Premium Compound Interest Bonds

A portion of the bonds sold in the Series 2007 bond issue and Series 2010A were capital appreciation bonds commonly referred to as "premium compound interest bonds". The District annually records the appreciation of bond principal for the accreted value of the bonds through maturity of the issue. The interest of these bond series will be paid upon maturity. The following table summarizes the significant features of the individual bonds, by issue:

<u>Series</u>	<u>Accreted Value</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Maturity Value</u>	<u>Maturity Dates</u>
2007	\$ 1,338,437	\$ 732,818	\$ 605,619	\$ 1,390,000	2014-2015
2010A	252,775	114,450	138,325	370,000	2013-2014
	<u>\$ 1,591,212</u>	<u>\$ 847,268</u>	<u>\$ 743,944</u>	<u>\$ 1,760,000</u>	

Qualified Zone Academy Bonds

The District is scheduled to make annual deposits into trust accounts for the Qualified Zone Academy Bonds (QZAB), Series 2001B and Series 2005. These annual deposits plus the interest earned on the trust accounts will be used to pay off the debt upon maturities at 2024 and 2020 respectively. The Districts accounts for these trust accounts as *restricted cash and temporary investments* on both the Statement of Net Position (Exhibit A-1) and in the Debt Service fund on the Governmental Funds Balance Sheet (Exhibit C-1).

Funds held in trust for Qualified Zone Academy Bonds (QZAB) are comprised of the following balances at August 31, 2013:

<u>Issue</u>	<u>Restricted Cash and Temporary Investments</u>	<u>Maturity Amount</u>	<u>Maturity Date</u>
Unlimited Tax School Building Bonds, Series 2001B	\$ 6,643,290	\$ 8,000,000	2015
Unlimited Tax School Building Bonds, Series 2005	1,457,998	3,000,000	2020
	<u>\$ 8,101,288</u>	<u>\$ 11,000,000</u>	

Prior Year Refunding of Long-Term Debt

In prior years, the District defeased, certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust, to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2013, all of previously refunded debt has been retired.

Advanced Refunding

The District issued Unlimited Tax Building and Refunding Bonds, Series 2012 and Unlimited Tax Building and Refunding Bonds, Series 2013 in the amount of \$9,465,000 and \$20,295,000 respectively. The amount of the refunded bonds totaled \$6,560,000 and \$11,295,000. Premiums on the bonds totaled \$372,372 for Series 2012 and \$1,221,699 for Series 2013. As a result, the refunded bonds have been removed from the governmental activities column of the statement of net position. Interest rates on the bonds range from 1.0 percent to 2.0 percent for Series 2012 and 3.0 percent to 3.5 percent for Series 2013. The reacquisition price exceeded the net carrying amount of the old debt by \$307,027. This amount is being netted against the new debt and amortized over the remaining life of the old debt, which is shorter than the life of the new debt issued. The transactions also resulted in an economic gain of \$3,727,490.

Note 8 - Revenues from Local, Intermediate, and Out-of-State sources

Revenues from local, intermediate and out-of-state sources in the governmental fund types are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 47,083,131	\$ 14,656,764	\$		\$ 61,739,895
Investment Income	30,410	387,700	3,602	1,035	422,747
Co-curricular student activities	95,515				95,515
Food Sales				713,195	713,195
Other	427,280			108,962	536,242
	<u>\$ 47,636,336</u>	<u>\$ 15,044,464</u>	<u>\$ 3,602</u>	<u>\$ 823,192</u>	<u>\$ 63,507,594</u>

Note 9 - Retirement Plan

Plan Description

Sheldon Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of the employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 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 benefits provisions of the pension plan 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.

Funding Policy

Contribution requirements are not actuarially determined but are 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. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2013, 2012, and 2011. The State contributed at a rate of 6.4% for fiscal year 2013 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are requirement to contribute 6.4% for fiscal year 2013, 6.0% for fiscal year 2012 and 6.64% for fiscal year 2011.

Note 9 - Retirement Plan (continued)

Contributions

Contributions made by the State, District and staff members for the years ended August 31, 2013, 2012, and 2011, are as follows:

Fiscal Year	Contributions Required and Made (in millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2013	\$ 2.099	\$ 0.801	\$ 2.900	\$ 5.800	\$ 45.313
2012	1.928	0.758	2.865	5.551	44.768
2011	2.160	0.871	2.920	5.951	45.624

For the current fiscal year and each of the past two years, the District’s actual contributions were equal to 100 percent of the required contributions. The contributions made by the state on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

Note 10 - Retiree Health Plan

Plan Description

The Sheldon Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retire Plan provides health care coverage for certain person (and their dependents) who retired under TRS. 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 insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. 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.

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

Note 10 - Retiree Health Plan (continued)

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 .5% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2013, 2012, and 2011. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute .5%.

Contributions made by the State, District and staff members for the years ended August 31, 2013, 2012, and 2011, are as follows:

Fiscal Year	Contributions Required and Made (in millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2013	\$ 0.211	\$ 0.265	\$ 0.295	\$ 0.771	\$ 45.313
2012	0.415	0.279	0.291	0.985	44.768
2011	0.428	0.279	0.297	1.004	45.624

For the current fiscal year and each of the past two years, the District’s actual contributions were equal to 100 percent of the required contributions. The contributions made by the state on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2013, 2012 and 2011, the subsidy payments received by TRS-Care on behalf of the District were \$118,888, \$115,083 and \$104,391, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55–64 and their covered dependants regardless of age. An “early retiree” is defined as a plan participant aged 55–64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program beginning in fiscal year 2012. For the year ended August 31, 2013 and 2012, the payment received under this program on behalf of the District was \$0 and \$108,831, respectively. This payment was recorded as equal revenue and expenditures in the governmental funds financial statements of the District.

Note 11 - Litigation

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

Note 12 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Note 13 - Prior Period Adjustment

The District implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year ended August 31, 2013. In accordance with GASB 65, debt issuance costs should be recognized as an expense in the period incurred. Previously, debt issuance costs were recorded as an asset and amortized over the life of the debt. The implementation of GASB 65 resulted in the following prior period adjustment to the net position of the governmental activities:

Beginning net position - As originally presented	\$ 57,938,453
Restatement due to:	
Effect of change in accounting principle	<u>(1,826,440)</u>
Beginning net position - As restated	<u><u>\$ 56,112,013</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SHELDON INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2013

Data Control Codes	Budgeted Amounts		
	Original	Final	
Revenues			
5700	Local and intermediate sources	\$ 45,200,000	\$ 48,294,991
5800	State program revenues	19,337,560	17,857,560
5900	Federal program revenues	460,000	610,000
5020	Total revenues	64,997,560	66,762,551
Expenditures			
Current:			
0011	Instruction	36,262,041	36,934,887
0012	Instructional resources and media services	756,123	761,123
0013	Curriculum and staff development	107,880	135,468
0021	Instructional leadership	2,234,473	2,248,977
0023	School leadership	4,236,410	4,202,560
0031	Guidance, counseling and evaluation services	1,739,915	1,576,917
0032	Social work services	39,750	39,750
0033	Health services	604,790	531,290
0034	Student transportation	3,427,445	3,539,759
0036	Extracurricular activities	1,629,847	1,791,054
0041	General administration	1,966,435	2,051,107
0051	Facilities maintenance and operations	8,355,000	8,461,625
0052	Security and monitoring services	769,600	769,600
0053	Data processing services	694,920	811,995
0061	Community services	5,752	6,504
Debt Service:			
0071	Principal on long-term debt	525,000	525,000
0072	Interest on long-term debt	219,810	219,810
Capital outlay:			
0081	Facilities acquisition and construction	926,164	927,164
Intergovernmental:			
0091	Contracted instructional services between schools	410,000	410,000
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	39,000	39,000
0099	Other intergovernmental charges	475,000	495,000
6030	Total Expenditures	65,425,355	66,478,590
1100	Excess (deficiency) of revenues over expenditures	(427,795)	283,961
Other Financing Sources (Uses)			
7912	Sale of real or personal property	9,000	84,447
7949	Other resources	5,000	7,922
8911	Transfers Out	(187,580)	(187,580)
7080	Total other financing sources and uses	(173,580)	(95,211)
1200	Net change in fund balances	(601,375)	188,750
0100	Fund balances - beginning	20,272,310	20,272,310
3000	Fund balances - ending	\$ 19,670,935	\$ 20,461,060

Exhibit G-1

Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
\$ 47,636,336	\$ (658,655)
16,041,609	(1,815,951)
1,404,238	794,238
<u>65,082,183</u>	<u>(1,680,368)</u>
35,890,440	1,044,447
711,810	49,313
102,600	32,868
2,193,470	55,507
4,228,766	(26,206)
1,532,046	44,871
33,195	6,555
493,029	38,261
3,402,560	137,199
1,536,117	254,937
1,873,851	177,256
7,856,614	605,011
724,472	45,128
718,142	93,853
2,859	3,645
525,000	
219,809	1
674,533	252,631
352,969	57,031
2,356	36,644
490,224	4,776
<u>63,564,862</u>	<u>2,913,728</u>
<u>1,517,321</u>	<u>1,233,360</u>
60,635	(23,812)
	(7,922)
<u>(151,233)</u>	<u>36,347</u>
<u>(90,598)</u>	<u>4,613</u>
1,426,723	1,237,973
20,272,310	
<u>\$ 21,699,033</u>	<u>\$ 1,237,973</u>

Budgets and Budgetary Accounting

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

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2013.

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

The official school budget was prepared for adoption for budgeted governmental fund types by August 25, 2012. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

Expenditures In Excess Of Appropriations

All expenditures in the General Fund were within budgeted appropriations, except for payments for school leadership in the amount of \$23,206.

OTHER SUPPLEMENTARY INFORMATION

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2013

Data Control Codes		211	224	225
		<u>ESEA Title I Part A</u>	<u>IDEA B Formula</u>	<u>IDEA B Preschool Grant</u>
	Assets			
1110	Cash and temporary investments	\$ 11,386	\$	\$ 4
	Receivables:			
1240	Receivables from other governments	244,939	132,843	1,713
1260	Due from other funds			
1310	Inventories, at cost			
1000	Total Assets	<u>\$ 256,325</u>	<u>\$ 132,843</u>	<u>\$ 1,717</u>
	Liabilities, Deferred Inflows, and Fund Balance			
	Liabilities:			
	Current Liabilities:			
2110	Accounts payable	\$ 7,229	\$	\$
2160	Accrued wages payable			
2170	Due to other funds	249,096	132,843	1,717
2300	Unearned revenues			
2000	Total Liabilities	<u>256,325</u>	<u>132,843</u>	<u>1,717</u>
	Fund Balance:			
	Nonspendable:			
3410	Inventories			
	Restricted:			
3450	Grant Funds			
3000	Total Fund Balances			
4000	Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 256,325</u>	<u>\$ 132,843</u>	<u>\$ 1,717</u>

226	240	244	255	263
<u>IDEA B- Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>
\$	\$ 1,300,629	\$	\$	\$ 34
	102,783		31,921	92,644
	112,217			
<u>\$</u>	<u>\$ 1,515,629</u>	<u>\$</u>	<u>\$ 31,921</u>	<u>\$ 92,678</u>
\$	\$ 70,820	\$	\$	\$
	48,921			673
	225,696		31,921	92,005
	33,264			
	378,701		31,921	92,678
	112,217			
	1,024,711			
	1,136,928			
<u>\$</u>	<u>\$ 1,515,629</u>	<u>\$</u>	<u>\$ 31,921</u>	<u>\$ 92,678</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2013

		265	404	410
<u>Data Control Codes</u>		<u>21st Century Grant</u>	<u>Student Succ. Init-Acc REA</u>	<u>Instructional Materials</u>
Assets				
1110	Cash and temporary investments	\$ 110,225	\$ 20	\$ 78,384
Receivables:				
1240	Receivables from other governments	19,486	18,720	
1260	Due from other funds			
1310	Inventories, at cost			
1000	Total Assets	<u>\$ 129,711</u>	<u>\$ 18,740</u>	<u>\$ 78,384</u>
Liabilities, Deferred Inflows, and Fund Balance				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$	\$ 1,184	\$
2160	Accrued wages payable	3,382		
2170	Due to other funds	126,329	17,556	72,961
2300	Unearned revenues			5,423
2000	Total Liabilities	<u>129,711</u>	<u>18,740</u>	<u>78,384</u>
Fund Balance:				
Nonspendable:				
3410	Inventories			
Restricted:				
3450	Grant Funds			
3000	Total Fund Balances			
4000	Total Liabilities, Deferred Inflows, and Fund Balance	<u>\$ 129,711</u>	<u>\$ 18,740</u>	<u>\$ 78,384</u>

418	429	465	481	482	
<u>Health Science</u>	<u>Texas Educators' Excellence</u>	<u>Pass Grant (ECHS)</u>	<u>Houston A+ Challenge</u>	<u>Summer College Readiness</u>	<u>Total Other Governmental Funds</u>
\$ 49,823	\$ 46	\$ 139,905	\$	\$ 24,838	\$ 1,715,294
7,453			3,341		652,502
					3,341
					112,217
<u>\$ 57,276</u>	<u>\$ 46</u>	<u>\$ 139,905</u>	<u>\$ 3,341</u>	<u>\$ 24,838</u>	<u>\$ 2,483,354</u>
\$ 1,951	\$	\$ 5,161	\$	\$	\$ 86,345
		778			53,754
55,325	46	109,916		17,990	1,133,401
					38,687
<u>57,276</u>	<u>46</u>	<u>115,855</u>		<u>17,990</u>	<u>1,312,187</u>
					112,217
		24,050	3,341	6,848	1,058,950
		24,050	3,341	6,848	1,171,167
<u>\$ 57,276</u>	<u>\$ 46</u>	<u>\$ 139,905</u>	<u>\$ 3,341</u>	<u>\$ 24,838</u>	<u>\$ 2,483,354</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2013

		211	224	225
<u>Data Control Codes</u>		<u>ESEA Title I Part A</u>	<u>IDEA B Formula</u>	<u>IDEA B Preschool Grant</u>
Revenues				
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	1,552,526	1,199,551	17,124
5020	Total revenues	<u>1,552,526</u>	<u>1,199,551</u>	<u>17,124</u>
Expenditures				
Current:				
0011	Instruction	1,535,207	845,231	17,124
0021	Instructional leadership			
0031	Guidance, counseling and evaluation services		354,320	
0035	Food service			
0051	Facilities maintenance and operations			
0061	Community services	17,319		
6030	Total Expenditures	<u>1,552,526</u>	<u>1,199,551</u>	<u>17,124</u>
1200	Net change in fund balances			
0100	Fund balance - beginning	<u> </u>	<u> </u>	<u> </u>
3000	Fund balance - ending	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

226	240	244	255	263
<u>IDEA B- Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>
\$	\$ 714,762	\$	\$	\$
	104,521			
125,610	4,169,456	102,448	177,202	249,139
<u>125,610</u>	<u>4,988,739</u>	<u>102,448</u>	<u>177,202</u>	<u>249,139</u>
125,610		102,448	175,674 1,528	249,139
	4,636,827			
<u>125,610</u>	<u>4,636,827</u>	<u>102,448</u>	<u>177,202</u>	<u>249,139</u>
	351,912			
	785,016			
<u>\$</u>	<u>\$ 1,136,928</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2013

Data Control Codes	265	404	410
21st Century Grant	Student Succ. Init- Acc REA	Instructional Materials	
Revenues			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues		28,940	212,069
5900 Federal program revenues	370,966		
5020 Total revenues	<u>370,966</u>	<u>28,940</u>	<u>212,069</u>
Expenditures			
Current:			
0011 Instruction	354,753	28,940	239,615
0021 Instructional leadership			295
0031 Guidance, counseling and evaluation services			
0035 Food service			
0051 Plant maintenance and operations	16,213		
0061 Community services			
6030 Total Expenditures	<u>370,966</u>	<u>28,940</u>	<u>239,910</u>
1200 Net change in fund balances			(27,841)
0100 Fund balance - beginning			<u>27,841</u>
3000 Fund balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>

418	429	465	481	482	
<u>Health Science</u>	<u>Texas Educators' Excellence</u>	<u>Pass Grant (ECHS)</u>	<u>Houston A+ Challenge</u>	<u>Summer College Readiness</u>	<u>Total Other Governmental Funds</u>
\$ 32,400	\$ 46	\$ 76,092	\$ 7,500	\$ 24,838	\$ 823,192
<u>32,400</u>	<u>46</u>	<u>76,092</u>	<u>7,500</u>	<u>24,838</u>	<u>377,976</u>
					7,964,022
32,400	46	81,925	4,159	17,990	3,810,261
<u>32,400</u>	<u>46</u>	<u>81,925</u>	<u>4,159</u>	<u>17,990</u>	<u>1,823</u>
					354,320
					4,636,827
					16,213
					17,319
					<u>8,836,763</u>
		(5,833)	3,341	6,848	328,427
		<u>29,883</u>			<u>842,740</u>
<u>\$</u>	<u>\$</u>	<u>\$ 24,050</u>	<u>\$ 3,341</u>	<u>\$ 6,848</u>	<u>\$ 1,171,167</u>

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TEA REQUIRED INFORMATION

SHELDON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2013

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>3 Net Assessed/ Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 9/1/2012</u>
	<u>1 Maintenance</u>	<u>2 Debt Service</u>		
2004 and prior	Various	Various	Various	\$ 497,407
2005	1.50000	0.24600	1,464,060,338	116,003
2006	1.50000	0.25000	1,927,391,387	114,776
2007	1.37000	0.26400	2,167,878,396	90,514
2008	1.04000	0.39000	3,262,365,274	103,835
2009	1.04000	0.39000	3,383,408,252	143,847
2010	1.04000	0.39000	3,449,039,580	254,508
2011	1.04000	0.39000	3,243,212,098	324,973
2012	1.09000	0.34000	3,505,474,406	643,860
2013	1.09000	0.34000	3,638,719,292	
1000 Totals				<u>\$ 2,289,723</u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2013
\$	\$ 9,670	\$ 1,144	\$ (7,906)	\$ 478,687
	6,658	1,092	(515)	107,738
	13,734	2,289	(984)	97,769
	17,428	3,358	6,135	75,863
	29,238	10,964	13,006	76,639
	34,101	12,788	12,767	109,725
	37,435	14,038	11,564	214,599
	66,972	25,115	(1,007)	231,879
	228,694	71,336	(1,585)	342,245
<u>52,113,841</u>	<u>46,767,796</u>	<u>14,588,120</u>	<u>9,904,924</u>	<u>662,849</u>
<u>\$ 52,113,841</u>	<u>\$ 47,211,726</u>	<u>\$ 14,730,244</u>	<u>\$ 9,936,399</u>	<u>2,397,993</u>
				<u>1,676,570</u>
				<u>Total taxes receivable per Exhibit C-1</u>
				<u>\$ 4,074,563</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2014-2015
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2013

Exhibit J-2

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 (APPRAISAL DISTRICT COSTS)

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) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS		\$ 134,980	\$ 268,288	\$ 1,541,120	\$ -		\$ 1,944,388
6149	Fringe Benefits (<u>Terminal Leave Only</u> for Separating Employees in Function 41 and Related 53)							
6149	Fringe Benefits (<u>Terminal Leave Only</u> for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services	6,778		10,765		\$ 58,639		76,182
6212	Audit Services				78,350			78,350
6213	Tax Appraisal and Collection (Appraisal district costs <u>only</u> from function 99)		490,224					490,224
6214	Lobbying				15,187			15,187
621X	Other Prof. Services	4,152						4,152
6220	Tuition and Transfer Payments							
6230	Education Service Centers				8,240			8,240
6240	Contr. Maint. and Repair					488		488
6250	Utilities					4,148		4,148
6260	Rentals				64,487			64,487
6290	Miscellaneous Contr.		6,500		69,997			76,497
6320	Textbooks and Reading							
6330	Testing Materials							
63XX	Other Supplies Materials	579	13,134	4,233	65,532			83,478
6410	Travel, Subsistence, Stipends	11,780	1,571	10,377	17,970			41,698
6420	Ins. and Bonding Costs				175			175
6430	Election Costs	29,340						29,340
6490	Miscellaneous Operating	25,242		10,924	48,426			84,592
6500	Debt Service							
6600	Capital Outlay						80,591	80,591
6000	TOTAL	\$ 77,871	\$ 646,409	\$ 304,587	\$ 1,909,484	\$ 63,275	\$ 80,591	\$ 3,082,217

Total expenditures/expenses for General and Special Revenue Funds
(plus Food Service Enterprise Fund if present) 9 \$72,401,625

Less: Deductions of Unallowable Costs

Fiscal Year

Total Capital Outlay (6600)	10	<u>\$812,000</u>
Total Debt & Lease (6500)	11	<u>744,809</u>
Plant Maintenance (Function 51, 6100-6400)	12	<u>7,831,390</u>
Food (Function 35, 6341 and 6499)	13	<u>2,295,945</u>
Stipends (6413)	14	<u>1,894,297</u>
Column 4 (above) - Total Indirect Cost		<u>1,894,297</u>
Subtotal:		<u>13,578,441</u>
Net Allowed Direct Cost		<u>58,823,184</u>

Cumulative

Total Cost of Buildings before Depreciation (1520)	15	<u>224,049,664</u>
Historical Cost of Buildings over 50 years old	16	<u>.....</u>
Amount of Federal Money in building Cost (Net of #16)	17	<u>.....</u>
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	<u>10,123,794</u>
Historical Cost of Furniture & Equipment over 16 years old	19	<u>507,224</u>
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	<u>118,775</u>

(8) Note A - \$ 718,142 in Function 53 expenditures directly related to Function 41 only are included in this report on administrative costs.
\$ 490,224 in Function 99 expenditures directly related to appraisal district costs are included in this report.

SHELDON INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
August 31, 2013

Exhibit J-3

Data Control Code	Explanation	Amount
1.	Total General Fund Balance as of 8-31-13 (Exhibit C-1 object 3000 for the General Fund only)	\$ 21,699,033
2.	Total Nonspendable Fund Balance 8-31-13 (from Exhibit C-1 - total of object 341X - 344X for the General Fund only)	384,606
3.	Total Restricted Fund Balance 8-31-13 (from Exhibit C-1 - total of object 345X - 349X for the General Fund only)	39,246
4.	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X - 354X for the General Fund only)	
5.	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	2,105,000
6.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	17,678,500
7.	Estimate of two month's average cash disbursements during the fiscal year	11,600,000
8.	Estimate of delayed payments from state sources (58xx)	
9.	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	
10.	Estimate of delayed payments from federal sources (59xx)	
11.	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).	
12.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10+11)	<u>31,807,352</u>
13.	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (1-12)	<u>\$ (10,108,319)</u>

The District's Administration will continue to monitor the General Fund Balance in the following budgetary cycles to maintain a fund balance level within District policy or State guidelines.

SHELDON INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
For the Year Ended August 31, 2013

Exhibit J-4

Data Control Codes		Child Nutrition			
		Budget			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 782,860	\$ 782,860	\$ 714,762	\$ (68,098)
5800	State Program Revenues	112,000	112,000	104,521	(7,479)
5900	Federal Program Revenues	4,032,730	4,032,730	4,169,456	136,726
5020	Total Revenues	<u>4,927,590</u>	<u>4,927,590</u>	<u>4,988,739</u>	<u>61,149</u>
Expenditures					
Current:					
0035	Food Services	5,215,367	5,215,367	4,636,827	578,540
6030	Total Expenditures	<u>5,215,367</u>	<u>5,215,367</u>	<u>4,636,827</u>	<u>578,540</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(287,777)</u>	<u>(287,777)</u>	<u>351,912</u>	<u>639,689</u>
Other Financing Sources (Uses)					
7990	Other Financing Sources	287,777	287,777		(287,777)
8990	Other Financing (Uses)				
7080	Total other financing sources (uses)	<u>287,777</u>	<u>287,777</u>		<u>(287,777)</u>
1200	Increase (Decrease) in Fund Balance			351,912	351,912
0100	Fund Balance - beginning	<u>785,016</u>	<u>785,016</u>	<u>785,016</u>	
3000	Fund Balance - ending	<u>\$ 785,016</u>	<u>\$ 785,016</u>	<u>\$ 1,136,928</u>	<u>\$ 351,912</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2013

Data Control Codes	Debt Service Fund				
	Budget			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 12,796,000	\$ 14,870,000	\$ 15,044,464	\$ 174,464
5020	Total Revenues	<u>12,796,000</u>	<u>14,870,000</u>	<u>15,044,464</u>	<u>174,464</u>
Expenditures					
Current:					
Debt Service:					
0071	Principal on Long-term Debt	4,284,016	4,284,016	4,284,016	
0072	Interest on Long-term Debt	6,413,959	6,413,959	6,413,959	
0073	Bond Issuance Costs and Fees	1,246,756	4,212,074	474,625	3,737,449
6030	Total Expenditures	<u>11,944,731</u>	<u>14,910,049</u>	<u>11,172,600</u>	<u>3,737,449</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>851,269</u>	<u>(40,049)</u>	<u>3,871,864</u>	<u>3,911,913</u>
Other Financing Sources (Uses)					
7910	Bond Proceeds		18,659,000	15,020,000	(3,639,000)
7916	Premium			1,594,071	1,594,071
8949	Payment to refunded bond escrow agent	(851,269)	(18,200,000)	(18,162,027)	37,973
8989	Non-Operating Expenses		(418,951)		418,951
7080	Total other financing sources (uses)	<u>(851,269)</u>	<u>40,049</u>	<u>(1,547,956)</u>	<u>(1,588,005)</u>
1200	Increase (Decrease) in Fund Balance			2,323,908	2,323,908
0100	Fund Balance - beginning	<u>26,653,562</u>	<u>26,653,562</u>	<u>26,653,562</u>	
3000	Fund Balance - ending	<u>\$ 26,653,562</u>	<u>\$ 26,653,562</u>	<u>\$ 28,977,470</u>	<u>\$ 2,323,908</u>

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FEDERAL AWARDS SECTION

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

To the Board of Trustees
Sheldon Independent School District
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District"), as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 21, 2014.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Sheldon Independent School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Houston, Texas
January 21, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY *OMB CIRCULAR A-133***

To the Board of Trustees
Sheldon Independent School District
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Sheldon Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

To the Board of Trustees
Sheldon Independent School District

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Houston, Texas
January 21, 2014

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2013

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133?	None

Identification of major programs

Name of Federal Program or Cluster	CFDA Numbers
------------------------------------	--------------

US Department of Agriculture

Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
National School Lunch Program - Non Cash Assistance (Commodities)	10.555
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	Yes

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2013

II. Financial Statement Findings

Significant Deficiencies.

None noted.

III. Federal Awards Findings and Questioned Costs

None noted.

IV. Status Of Prior Year Findings

None noted.

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2013

Exhibit K-1

(2A)	(1)	(2)	(3)	
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund	Federal CFDA Number	
			Federal Expenditures	
U.S. Department of Education				
Passed Through Texas Education Agency:				
13610101101924000	<i>ESEA Title I, Improving Basic Programs</i>	211	84.010A	\$ 1,552,526
136600011019246600	<i>IDEA Part B - Special Education Formula*</i>	224	84.027A	1,199,551
136610011019246610	<i>IDEA Part B - Preschool*</i>	225	84.173A	17,124
136600021019246677	<i>IDEA Part B - Discretionary*</i>	226	84.027A	125,610
13420006101924	<i>Carl D. Perkins, Basic Grant</i>	244	84.048A	102,448
13694501101924	<i>ESEA Title II, Part A - Teacher/Principal Training</i>	255	84.367A	177,202
13671001101924	<i>ESEA Title III, Part A - LEP</i>	263	84.365A	249,139
69551202	<i>Summer School LEP</i>	289	84.369A	15,582
Total passed through Texas Education Agency			<u>3,439,182</u>	
Passed Through Harris County Department of Education:				
S287B010187	<i>21 Century Community Learning Centers</i>	265	84.287C	<u>370,966</u>
Total U.S. Department of Education			<u>3,810,148</u>	
U.S. Department of Agriculture				
Passed Through Texas Department of Agriculture:				
<i>Child Nutrition Cluster:</i>				
<i>Non Cash Assistance (Commodities)</i>				
101924	<i>National School Lunch Program**</i>	240	10.555	269,103
Passed Through State Department of Education:				
<i>Cash Assistance:</i>				
713013014	<i>National School Lunch Program**</i>	240	10.555	2,659,464
71401301	<i>National School Breakfast Program**</i>	240	10.553	<u>1,240,889</u>
Total U.S. Department of Agriculture			<u>4,169,456</u>	
Total Expenditures of Federal Awards			<u>\$ 7,979,604</u>	

*Special Education Cluster

**Child Nutrition Cluster

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 - Summary of Significant Accounting

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

Note 3 - Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Federal Program Revenues (Per Exhibit C-3)	\$ 9,368,260
SHARS	(965,631)
Federal Interest Subsidy	(423,025)
Expenditures of Federal Awards per SEFA	<u>\$ 7,979,604</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
August 31, 2013

Exhibit L-1

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	<u>\$ 743,944</u>

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