

**SHELDON  
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**For The Year Ended August 31, 2012**



**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**TABLE OF CONTENTS**

	<u>Page</u>	<u>Exhibit</u>
<b>Certificate of the Board</b>	i	
<b>Financial Section</b>		
<b>Report of Independent Auditors</b>	1	
<b>Management’s Discussion and Analysis</b>	5	
<b>Basic Financial Statements:</b>		
Government-wide Financial Statements:		
Statement of Net Assets	17	A-1
Statement of Activities	18	B-1
Governmental Fund Financial Statements:		
Balance Sheet	20	C-1
Reconciliation of Balance Sheet for Governmental Funds to Statement of Net Assets	23	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	24	C-3
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	26	C-4
Proprietary Fund Statements:		
Statement of Net Assets	27	D-1
Statement of Revenues, Expenses, and Changes in Fund Net Assets	28	D-2
Statement of Cash Flows	29	D-3
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	30	E-1
Statement of Changes in Fiduciary Net Assets	31	E-2
Notes to the Financial Statements	33	F-1
<b>Required Supplementary Information:</b>		
Budgetary Comparison Schedule - General Fund	54	G-1
Notes to Required Supplementary Information	56	G-2
<b>Other Supplementary Information:</b>		
Combining Fund Statements:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	58	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	64	H-2
<b>Required TEA Information:</b>		
Schedule of Delinquent Taxes Receivable	72	J-1
Schedule of Expenditures for Computation of Indirect Costs for 2013-2014	74	J-2
Fund Balance and Cash Flow Calculation Schedule (Unaudited)- General Fund	75	J-3
Budgetary Comparison Schedule - Child Nutrition Fund	76	J-4
Budgetary Comparison Schedule - Debt Service Fund	77	J-5

# SHELDON INDEPENDENT SCHOOL DISTRICT

## TABLE OF CONTENTS (continued)

	<u>Page</u>	<u>Exhibit</u>
<b>Federal Awards Section</b>		
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 <i>Government Auditing Standards</i>	81	
Independent Auditors' Report on Compliance with Requirements that Could have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	83	
Schedule of Findings and Questioned Costs	85	
Schedule of Expenditures of Federal Awards	87	K-1
Notes to Schedule of Expenditures of Federal Awards	88	K-2

**CERTIFICATE OF THE BOARD**

Sheldon Independent School District

Name of School District

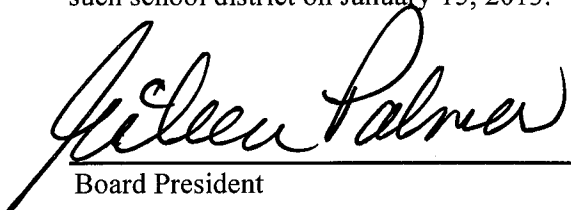
Harris

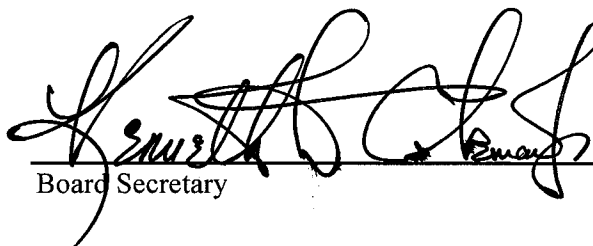
County

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, 2012, at a meeting of the board of trustees of such school district on January 15, 2013.

  
Board President

  
Board Secretary



## **FINANCIAL SECTION**





## REPORT OF INDEPENDENT AUDITORS

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

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees  
Sheldon Independent School District  
Houston, Texas  
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 13 and pages 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual fund financial statements and required Texas Education Agency ("the TEA") schedules, except for those marked "unaudited" on which we express no opinion, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying 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 financial statements. The combining and individual fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Texas City, Texas  
January 11, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*(This page intentionally left blank.)*

# **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, 2012.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$57,961,556 (*net assets*). Of this amount, \$20,739,736(*unrestricted net assets*) 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 \$48,378,497 an increase of \$1,102,734 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 \$1,275,776 and the decrease in the capital projects fund balance of \$1,732,589.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$17,492,344 or 28 percent of total general fund expenditures.
- The District's total bonded debt decreased by \$6,483,186 (4 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 Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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 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.

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

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 twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, all of which are considered to be major funds. Data from the other twenty 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 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 33 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 69 of this report.

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

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$57,961,556 at the close of the most recent fiscal year.

The District's investment in capital assets (e.g., capitalized bond and debt issuance costs, land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to \$9,374,269. 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 Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 56,234,442	\$ 60,448,700	\$ 28,283	\$ 16,494	\$ 56,262,725	\$ 60,465,194
Capital and non current assets	175,101,074	178,160,123			175,101,074	178,160,123
<b>Total Assets</b>	<b>231,335,516</b>	<b>238,608,823</b>	<b>28,283</b>	<b>16,494</b>	<b>231,363,799</b>	<b>238,625,317</b>
Current liabilities	4,435,693	6,726,014	5,180	7,204	4,440,873	6,733,218
Long term liabilities	168,961,370	175,444,556			168,961,370	175,444,556
<b>Total Liabilities</b>	<b>173,397,063</b>	<b>182,170,570</b>	<b>5,180</b>	<b>7,204</b>	<b>173,402,243</b>	<b>182,177,774</b>
<b>Net Assets</b>						
Invested in capital assets net of related debt	9,374,269	8,012,014			9,374,269	8,012,014
Restricted	27,847,551	26,944,019			27,847,551	26,944,019
Unrestricted	20,716,633	21,482,220	23,103	9,290	20,739,736	21,491,510
<b>Total Net Assets</b>	<b>\$ 57,938,453</b>	<b>\$ 56,438,253</b>	<b>\$ 23,103</b>	<b>\$ 9,290</b>	<b>\$ 57,961,556</b>	<b>\$ 56,447,543</b>

Net assets of \$27,847,551 are restricted for state and federal programs, debt service and local grants. The remaining balance of *unrestricted net assets* \$20,739,736 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 assets. The District's net assets increased by \$1,514,013 during the current fiscal year primarily due to increases in state aid.



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

**Sheldon Independent School District's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Program Revenues</b>						
Charges for services	798,508	\$ 874,059	\$ 280,892	\$ 293,862	\$ 1,079,400	\$ 1,167,921
Operating grants	12,335,684	12,818,545			12,335,684	12,818,545
<b>General Revenues</b>						
Property taxes	54,367,175	57,849,813			54,367,175	57,849,813
State aid	15,160,410	19,311,990			15,160,410	19,311,990
Grants and contributions not restricted						
Interest earnings	403,347	461,586			403,347	461,586
Other	1,669,282	1,643,779			1,669,282	1,643,779
<b>Total Revenues</b>	<b>84,734,406</b>	<b>92,959,772</b>	<b>280,892</b>	<b>293,862</b>	<b>85,015,298</b>	<b>93,253,634</b>
<b>Expenses</b>						
Instruction	41,710,597	43,597,836			41,710,597	43,597,836
Instructional resources and media services	826,539	990,935			826,539	990,935
Curriculum and staff development	87,495	108,772			87,495	108,772
Instructional leadership	1,976,404	2,167,358			1,976,404	2,167,358
School leadership	4,212,811	3,975,657			4,212,811	3,975,657
Guidance, counseling, and evaluation services	1,899,830	2,023,869			1,899,830	2,023,869
Social work services	32,743	28,300			32,743	28,300
Health services	626,218	574,584			626,218	574,584
Student transportation	3,834,432	3,792,220			3,834,432	3,792,220
Food service	4,776,532	4,575,875			4,776,532	4,575,875
Extracurricular activities	1,939,763	2,048,410			1,939,763	2,048,410
General administration	1,914,466	2,052,938			1,914,466	2,052,938
Facilities maintenance and operations	7,789,991	8,012,116			7,789,991	8,012,116
Security and monitoring services	624,079	621,787			624,079	621,787
Data processing services	634,747	619,277			634,747	619,277
Community services	15,732	13,657	453,631	479,332	469,363	492,989
Interest on long-term debt	7,022,679	7,203,458			7,022,679	7,203,458
Bond issuance costs and fees	6,774	16,447			6,774	16,447
Capital Outlay	529,448	1,590,860			529,448	1,590,860
Contracted instructional services between schools	2,120,821	4,323,874			2,120,821	4,323,874
Payments to Juvenile Justice Alternative Education Programs	5,372	1,100			5,372	1,100
Other intergovernmental charges	460,181	482,617			460,181	482,617
<b>Total Expenses</b>	<b>83,047,654</b>	<b>88,821,947</b>	<b>453,631</b>	<b>479,332</b>	<b>83,501,285</b>	<b>89,301,279</b>
Excess (deficiency) before special items and transfers	1,686,752	4,137,825	(172,739)	(185,470)	1,514,013	3,952,355
Transfers	(186,552)	(194,685)	186,552	194,685		
Increase (Decrease) in Net Assets	1,500,200	3,943,140	13,813	9,215	1,514,013	3,952,355
<b>Beginning net assets</b>	<b>56,438,253</b>	<b>52,495,113</b>	<b>9,290</b>	<b>75</b>	<b>56,447,543</b>	<b>52,495,188</b>
<b>Ending Net Assets</b>	<b>\$ 57,938,453</b>	<b>\$ 56,438,253</b>	<b>\$ 23,103</b>	<b>\$ 9,290</b>	<b>\$ 57,961,556</b>	<b>\$ 56,447,543</b>

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

**Governmental activities**

Governmental activities increased the District's net assets by \$1,500,200. Key elements of this increase are as follows:

Revenues are generated primarily from three sources. State Aid Formula Grant, operating grants and contributions (program and general revenues totaling (\$27,496,094) represent 32 percent of total revenues and property taxes (\$54,367,175) represent 64 percent of total revenues. The remaining 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$41,710,597), which represents 50 percent of total expenses. Plant maintenance and operations (\$7,789,991) represents 9 percent of total expenses. Interest on long-term debt (\$7,022,679) 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. For the most part, increases in expenses clearly paralleled student growth in the District.

**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 \$48,378,497, an increase of \$1,102,734 in comparison with the prior year. The change in governmental fund balances was primarily due to the increase in the debt service fund balance offset by the decrease 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 \$17,492,344, while total fund balance reached \$20,272,310. 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 28 percent of total general fund expenditures, while total fund balance represents 33 percent of that same amount.

The fund balance of the District's general fund increased by \$1,289,940 during the current fiscal year primarily due to a M&O tax rate increase and budget cuts.

The debt service fund has a total fund balance of \$26,653,562, 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 \$1,275,776 was attributable to increases in local tax revenues resulting from higher than estimated property values and additions to sinking funds for repayment of bonds.

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

The capital projects fund has a total fund balance of \$609,885, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$1,732,589 was primarily due to the completion of construction projects during the year.

**General Fund Budgetary Highlights**

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

	<u>Estimated Revenues</u>
Original	\$ 64,585,838
Final	63,450,814
<b>Total estimated revenues decrease</b>	<u><u>\$ (1,135,024)</u></u>
	 <b>Appropriations</b>
Original	\$ 64,476,499
Final	62,840,070
<b>Total appropriations decrease</b>	<u><u>\$ (1,636,429)</u></u>

The review of the final amended budget versus actual for the general fund reflected that revenues were more than budgetary estimates 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, 2012, amounts to \$175,101,074 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 2 percent.

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

**Sheldon Independent School District's Capital Assets**

	<b>Balance August 31, 2011</b>	<b>Additions</b>	<b>Retirements and Transfers</b>	<b>Balance August 31, 2012</b>
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Buildings and improvements	214,400,467	1,660,335		216,060,802
Furniture and equipment	9,712,089	393,005	(125,896)	9,979,198
	<u>229,887,752</u>	<u>2,053,340</u>	<u>(125,896)</u>	<u>231,815,196</u>
Less accumulated depreciation for:				
Buildings and improvements	(46,159,807)	(4,418,705)		(50,578,512)
Furniture and Equipment	(5,567,822)	(693,684)	125,896	(6,135,610)
	<u>(51,727,629)</u>	<u>(5,112,389)</u>	<u>125,896</u>	<u>(56,714,122)</u>
Governmental Capital Assets	<u>\$ 178,160,123</u>	<u>\$ (3,059,049)</u>	<u>\$</u>	<u>\$ 175,101,074</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.

**Long-term liabilities**

At the end of the current fiscal year, the District had \$167,492,264 in bonded debt outstanding, a decrease of \$6,230,115 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, 2012, are as follows:

**Sheldon Independent School District's Long-term Liabilities**

	<b>Balance August 31, 2011</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance August 31, 2012</b>
General obligation bonds	\$ 173,722,379	\$ 3,559,996	\$ (9,790,111)	\$ 167,492,264
Plus amounts for issuance premiums	1,886,296	345,705	(122,891)	2,109,110
Gain or loss on refunding bonds	(1,289,971)	(235,201)	86,928	(1,438,244)
Accreted interest on premium compound interest bonds	1,125,852	62,277	(389,889)	798,240
	<u>\$ 175,444,556</u>	<u>\$ 3,732,777</u>	<u>\$ (10,215,963)</u>	<u>\$ 168,961,370</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.

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

**Economic Factors and Next Year's Budgets and Tax Rates**

- Peak enrollment totaled 7,159 students, which is a 4 percent increase from the prior year. Enrollment growth is projected to continue at this rate.
- District staff totals 1,031 employees, which primarily consists of 495 teachers, 186 paraprofessionals and 227 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 2012-13.
- The District is facing an estimated state funding reduction of \$2.0 million for the 2012-13 budget year. Budget cuts are approved to balance the 2012-13 budget.

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.

*(This page intentionally left blank.)*

## **BASIC FINANCIAL STATEMENTS**

*(This page intentionally left blank.)*



**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**August 31, 2012**

*Exhibit A-1*

<b>Data Control Codes</b>		<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
	<b>Assets</b>			
1110	Cash and Cash Equivalents	\$ 42,510,415	\$ 27,742	\$ 42,538,157
1220	Delinquent Property Taxes Receivables	2,102,488		2,102,488
1240	Due from Other Governments	1,894,176		1,894,176
1250	Accrued Interest	70		70
1260	Internal Balances	(541)	541	
1290	Other Receivables (net)	253,412		253,412
1300	Inventories	473,463		473,463
1420	Capital Bond & Other Debt Issuance Cost	1,826,440		1,826,440
	<b>Capital Assets, not subject to depreciation:</b>			
1510	Land	5,775,196		5,775,196
	<b>Capital Assets, net of accumulated depreciation:</b>			
1520	Buildings and improvements, net	165,482,290		165,482,290
1530	Furniture and equipment, net	3,843,588		3,843,588
1810	Restricted Cash and Temporary Investments	7,174,519		7,174,519
<b>1000</b>	<b>Total Assets</b>	<b>231,335,516</b>	<b>28,283</b>	<b>231,363,799</b>
	<b>Liabilities</b>			
2110	Accounts Payable	1,232,191	945	1,233,136
2140	Interest Payable	298,322		298,322
2150	Payroll Deductions and Withholdings	723,398		723,398
2160	Accrued Wages Payable	2,097,148	4,235	2,101,383
2177	Due to Fiduciary Funds	1,251		1,251
2180	Due to Other Governments	1,817		1,817
2300	Unearned Revenue	81,566		81,566
	<b>Noncurrent Liabilities:</b>			
2501	Due within one year	4,708,988		4,708,988
2502	Due in more than one year	164,252,382		164,252,382
<b>2000</b>	<b>Total Liabilities</b>	<b>173,397,063</b>	<b>5,180</b>	<b>173,402,243</b>
	<b>Net Assets</b>			
3200	Invested in capital assets, net of related debt	9,374,269		9,374,269
	<b>Restricted for:</b>			
3820	Federal and state programs	870,187		870,187
3850	Debt service	26,977,364		26,977,364
3900	<b>Unrestricted</b>	<b>20,716,633</b>	<b>23,103</b>	<b>20,739,736</b>
<b>3000</b>	<b>Total net assets</b>	<b>\$ 57,938,453</b>	<b>\$ 23,103</b>	<b>\$ 57,961,556</b>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended August 31, 2012

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
	<b>Governmental activities:</b>			
11	Instruction	\$ 41,710,597	\$ 13,640	\$ 6,739,194
	Instructional resources and media services	826,539		28,880
13	Curriculum and staff development	87,495		923
21	Instructional leadership	1,976,404		102,410
23	School leadership	4,212,811		192,650
	Guidance, counseling, and evaluation services	1,899,830		374,350
32	Social work services	32,743		
33	Health services	626,218		27,390
34	Student transportation	3,834,432		126,020
35	Food service	4,776,532	691,811	3,963,909
36	Extracurricular activities	1,939,763	93,057	33,950
41	General administration	1,914,466		75,584
51	Facilities maintenance and operations	7,789,991		184,314
52	Security and monitoring services	624,079		
53	Data processing services	634,747		13,200
61	Community services	15,732		11,086
72	Interest on long-term debt	7,022,679		461,824
73	Bond issuance costs and fees	6,774		
81	Capital Outlay	529,448		
	Contracted instructional services between schools	2,120,821		
91	Payments to Juvenile Justice Alternative Education Programs	5,372		
99	Payments to appraisal districts	460,181		
<b>TG</b>	<b>Total governmental activities</b>	<u>83,047,654</u>	<u>798,508</u>	<u>12,335,684</u>
	<b>Business-type activities</b>			
01	Early Learning Center - Daycare	453,631	280,892	
<b>TB</b>	<b>Total business-type activities</b>	<u>453,631</u>	<u>280,892</u>	
<b>TP</b>	<b>Total primary government</b>	<u>\$ 83,501,285</u>	<u>\$ 1,079,400</u>	<u>\$ 12,335,684</u>
	<b>Data Control Codes</b>			
	<b>General revenues:</b>			
	Taxes:			
<b>MT</b>	Property taxes, levied for general purposes			
<b>DT</b>	Property taxes, levied for debt service			
<b>SF</b>	State-aid formula grants			
<b>IE</b>	Investment earnings			
<b>MI</b>	Miscellaneous			
<b>FR</b>	Transfers			
<b>TR</b>	<b>Total general revenues, special items, and transfers</b>			
<b>CN</b>	Change in net assets			
<b>NB</b>	<b>Net assets - beginning</b>			
<b>NE</b>	<b>Net assets - ending</b>			

See Notes to the Financial Statements

*Exhibit B-1*

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (34,957,763)		\$ (34,957,763)
(797,659)		(797,659)
(86,572)		(86,572)
(1,873,994)		(1,873,994)
(4,020,161)		(4,020,161)
(1,525,480)		(1,525,480)
(32,743)		(32,743)
(598,828)		(598,828)
(3,708,412)		(3,708,412)
(120,812)		(120,812)
(1,812,756)		(1,812,756)
(1,838,882)		(1,838,882)
(7,605,677)		(7,605,677)
(624,079)		(624,079)
(621,547)		(621,547)
(4,646)		(4,646)
(6,560,855)		(6,560,855)
(6,774)		(6,774)
(529,448)		(529,448)
(2,120,821)		(2,120,821)
(5,372)		(5,372)
(460,181)		(460,181)
<u>(69,913,462)</u>		<u>(69,913,462)</u>
	<u>(172,739)</u>	<u>(172,739)</u>
	<u>(172,739)</u>	<u>(172,739)</u>
<u>(69,913,462)</u>	<u>(172,739)</u>	<u>(70,086,201)</u>
41,522,383		41,522,383
12,844,792		12,844,792
15,160,410		15,160,410
403,347		403,347
1,669,282		1,669,282
(186,552)	186,552	
<u>71,413,662</u>	<u>186,552</u>	<u>71,600,214</u>
1,500,200	13,813	1,514,013
<u>56,438,253</u>	<u>9,290</u>	<u>56,447,543</u>
<u>\$ 57,938,453</u>	<u>\$ 23,103</u>	<u>\$ 57,961,556</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

August 31, 2012

<b>Data Control Codes</b>	<b>General Fund</b>	<b>Debt Service Fund</b>
<b>Assets</b>		
1110 Cash and temporary investments	\$ 21,745,764	\$ 19,144,557
Receivables:		
1220 Delinquent property taxes receivables	3,102,808	739,966
1230 Allowance for uncollectible taxes (credit)	(1,490,296)	(249,990)
1240 Receivables from other governments	1,382,030	
1250 Accrued interest	70	
1260 Due from other funds	481,363	288,931
1290 Other receivables	253,412	
1300 Inventories	409,125	
1810 Restricted cash and temporary investments		7,174,519
<b>1000 Total Assets</b>	<b>\$ 25,884,276</b>	<b>\$ 27,097,983</b>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
2110 Accounts payable	\$ 944,720	\$
2150 Payroll deduction and withholdings payable	723,398	
2160 Accrued wages payable	2,014,984	
2170 Due to other funds	412,453	
2180 Payable to other governments	1,817	
2300 Deferred revenues	1,514,594	444,421
<b>2000 Total Liabilities</b>	<b>5,611,966</b>	<b>444,421</b>
 <b>Fund Balance:</b>		
<b>Nonspendable:</b>		
3410 Inventories	409,125	
<b>Restricted:</b>		
3450 Grant Funds	27,447	
3470 Capital acquisitions		
3480 Debt service		26,653,562
<b>Assigned:</b>		
3590 Other purposes	2,343,394	
3600 <b>Unassigned</b>	17,492,344	
<b>3000 Total fund balances</b>	<b>20,272,310</b>	<b>26,653,562</b>
<b>4000 Total Liabilities and Fund Balances</b>	<b>\$ 25,884,276</b>	<b>\$ 27,097,983</b>

See Notes to the Financial Statements.

*Exhibit C-1*

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,620,094	\$ 42,510,415
	3,842,774
	(1,740,286)
512,146	1,894,176
	70
121,730	892,024
	253,412
64,338	473,463
	7,174,519
<u>\$ 2,318,308</u>	<u>\$ 55,300,567</u>
\$ 287,471	\$ 1,232,191
	723,398
82,164	2,097,148
481,363	893,816
	1,817
14,685	1,973,700
<u>865,683</u>	<u>6,922,070</u>
64,338	473,463
778,402	805,849
609,885	609,885
	26,653,562
	2,343,394
	17,492,344
<u>1,452,625</u>	<u>48,378,497</u>
<u>\$ 2,318,308</u>	<u>\$ 55,300,567</u>

*(This page intentionally left blank)*

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO**  
**STATEMENT OF NET ASSETS**  
*August 31, 2012*

*Exhibit C-2*

<u>Data Control Codes</u>		
	<b>Total fund balance, governmental funds</b>	\$ 48,378,497
	Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
<b>1</b>	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	175,101,074
<b>2</b>	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).	1,892,134
<b>3</b>	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.	1,826,440
	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:	
<b>4</b>	General obligation bonds	(167,492,264)
<b>5</b>	Premiums on issuance	(2,109,110)
<b>6</b>	Deferred loss on refunding	1,438,244
<b>7</b>	Accreted interest on premium compound interest bonds	(798,240)
<b>8</b>	Accrued interest payable	(298,322)
<b>9</b>	<b>Total net assets - governmental activities</b>	<u>\$ 57,938,453</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, 2012*

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Debt Service Fund</b>
<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$ 43,994,725	\$ 14,094,918
5800	State program revenues	17,499,487	
5900	Federal program revenues	2,061,664	
<b>5020</b>	<b>Total revenues</b>	<u>63,555,876</u>	<u>14,094,918</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011	Instruction	33,680,016	
0012	Instructional resources and media services	691,643	
0013	Curriculum and staff development	86,221	
0021	Instructional leadership	1,908,239	
0023	School leadership	4,077,915	
0031	Guidance, counseling and evaluation services	1,569,565	
0032	Social work services	32,743	
0033	Health services	581,253	
0034	Student transportation	3,273,124	
0035	Food services		
0036	Extracurricular activities	1,510,925	
0041	General administration	1,874,996	
0051	Facilities maintenance and operations	7,612,556	
0052	Security and monitoring services	624,079	
0053	Data processing services	589,782	
0061	Community services	4,646	
<b>Debt service:</b>			
0071	Principal and interest on long-term debt	500,000	5,730,111
0072	Interest on long-term debt	239,669	7,085,526
0073	Bond issuance costs and fees		114,005
<b>Capital outlay:</b>			
0081	Capital outlay	713,399	
<b>Intergovernmental:</b>			
0091	Contracted instructional services between schools	2,120,821	
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	5,372	
0099	Payments to appraisal districts	460,181	
<b>6030</b>	<b>Total Expenditures</b>	<u>62,157,145</u>	<u>12,929,642</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,398,731</u>	<u>1,165,276</u>
<b>Other Financing Sources (Uses)</b>			
7901	Refunding bonds issued		3,559,996
7912	Sale of real or personal property	26,283	
7916	Premium or discount on issuance of bonds		345,705
7949	Other resources	51,478	
8911	Transfers out	(186,552)	
8949	Payment to refunded bond escrow agent		(3,795,201)
<b>7080</b>	<b>Total other financing sources (uses)</b>	<u>(108,791)</u>	<u>110,500</u>
1200	Net change in fund balances	1,289,940	1,275,776
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>18,982,370</u>	<u>25,377,786</u>
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 20,272,310</u>	<u>\$ 26,653,562</u>

See Notes to the Financial Statements.



Exhibit C-3

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 751,832	\$ 58,841,475
1,062,049	18,561,536
8,264,813	10,326,477
<u>10,078,694</u>	<u>87,729,488</u>
5,024,605	38,704,621
	691,643
1,274	87,495
23,200	1,931,439
	4,077,915
285,300	1,854,865
	32,743
	581,253
	3,273,124
4,445,204	4,445,204
	1,510,925
	1,874,996
16,014	7,628,570
	624,079
	589,782
11,086	15,732
	6,230,111
	7,325,195
	114,005
1,734,993	2,448,392
	2,120,821
	5,372
	460,181
<u>11,541,676</u>	<u>86,628,463</u>
<u>(1,462,982)</u>	<u>1,101,025</u>
	3,559,996
	26,283
	345,705
	51,478
	(186,552)
	<u>(3,795,201)</u>
	<u>1,709</u>
(1,462,982)	1,102,734
<u>2,915,607</u>	<u>47,275,763</u>
<u>\$ 1,452,625</u>	<u>\$ 48,378,497</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, 2012*

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ 1,102,734
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
<b>1</b>	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	2,053,340
	Depreciation Expense	(5,112,389)
<b>2</b>	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(3,072,843)
<b>3</b>	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	6,230,111
<b>4</b>	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.	(3,905,701)
<b>5</b>	Payment to escrow agent for payment of refunded bonds	3,795,201
<b>6</b>	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	107,231
	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:	
<b>7</b>	Decrease in interest payable not recognized in fund statements	47,853
<b>8</b>	Amortization of deferred charges	(72,949)
<b>9</b>	Accreted interest on capital appreciation bonds and amortization of bond issuance costs and deferred loss on refunding	<u>327,612</u>
<b>10</b>	<b>Change in net assets of governmental activities (see B-1)</b>	<u><u>\$ 1,500,200</u></u>

See Notes to the Financial Statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT**

*Exhibit D-1*

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUND**

*August 31, 2012*

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
	<b>Assets</b>	
	<b>Current Assets:</b>	
1110	Cash and cash equivalents	\$ 27,742
1260	Due from other funds	541
1000	<b>Total Assets</b>	<u>\$ 28,283</u>
	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
2110	Accounts payable	\$ 945
2160	Accrued wages payable	4,235
2000	<b>Total Liabilities</b>	<u>5,180</u>
	<b>Net Assets</b>	
3900	Unrestricted net assets	23,103
3000	<b>Total Net Assets</b>	<u>\$ 23,103</u>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
*For the Year Ended August 31, 2012*

*Exhibit D-2*

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	<b>Operating Revenues</b>	
5739	Tuition	\$ 280,892
5020	<b>Total Operating Revenues</b>	<u>280,892</u>
	<b>Operating Expenses</b>	
6100	Payroll costs	425,805
6200	Purchased and contracted services	1,021
6300	Supplies and materials	8,485
6400	Claims expense and other operating expenses	18,320
6030	<b>Total Operating Expenses</b>	<u>453,631</u>
	Income (Loss) before Transfers	(172,739)
	<b>Transfers</b>	
7915	Transfers in	<u>186,552</u>
1200	Change in Net Assets	13,813
0100	<b>Net Assets - beginning</b>	<u>9,290</u>
3300	<b>Net Assets - ending</b>	<u><u>\$ 23,103</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, 2012*

	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 280,892
Cash payments to suppliers for goods and services	(28,606)
Cash payments to employees	(427,590)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>(175,304)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Advances from other funds	186,552
<b>Net Cash Provided by (Used for) Non-Capital     Financing Activities</b>	<u>186,552</u>
Net Increase in Cash and Cash Equivalents	11,248
<b>Cash and Cash Equivalents at Beginning of Year</b>	16,494
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 27,742</u>
<b>Reconciliation to Balance Sheet</b>	
Cash and Cash Equivalents Per Cash Flow	<u>\$ 27,742</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 27,742</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities</b>	
Operating Income (Loss)	\$ (172,739)
<b>Change in Assets and Liabilities:</b>	
Increase (decrease) in Accounts Payable	(780)
Increase (decrease) in Accrued Wages Payable	(1,785)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ (175,304)</u>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT***Exhibit E-1***STATEMENT OF FIDUCIARY NET ASSETS***August 31, 2012*

<b>Data Control Codes</b>		<b>810</b>	<b>865</b>
		<b>Scholarship Fund</b>	<b>Student Activity Fund</b>
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 217,279	\$ 199,375
	Receivables:		
1250	Interest receivable	119	107
1260	Due from other Funds		1,251
1000	<b>Total Assets</b>	<u>217,398</u>	<u>\$ 200,733</u>
	<b>Liabilities</b>		
2190	Due to student groups	<u>37,096</u>	<u>\$ 200,733</u>
2000	<b>Total Liabilities</b>	<u>37,096</u>	<u>\$ 200,733</u>
	<b>Net Assets</b>		
3800	Reserved for scholarships	<u>\$ 180,302</u>	

See Notes to the Financial Statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
*For the Year Ended August 31, 2012*

*Exhibit E-2*

	<b>810</b>
	<b>Scholarship</b>
	<b>Fund</b>
	<hr/>
<b>Additions</b>	
Gifts and contributions	\$ 62,283
Earnings on investments	1,078
<b>Total Additions</b>	<hr/> <b>63,361</b> <hr/>
<b>Deductions</b>	
Scholarships awarded	60,333
<b>Total deductions</b>	<hr/> <b>60,333</b> <hr/>
Change in net assets	3,028
<b>Net assets, beginning of year</b>	<hr/> <b>177,274</b> <hr/>
<b>Net assets, end of year</b>	<hr/> <b>\$ 180,302</b> <hr/>

See Notes to the Financial Statements.

*(This page intentionally left blank)*



**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 assets 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.

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 *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.
- 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.

**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, 2012. 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.

**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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**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, furniture and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental column in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. 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.

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 \$127,066 as of August 31, 2012.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**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 assets. 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 reported as deferred charges and amortized over the term of the related debt.

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.

**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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**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	\$	460,000
Wealth Equalization Payments		350,000
Encumbrances		33,394
Emergency Repairs		1,500,000
		<u>1,500,000</u>
	\$	<u>2,343,394</u>

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

Beginning fund balances for the District’s governmental funds have been restated to reflect the above classifications.

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.

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.

**Note 2 - Deposits and Investments (continued)**

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.

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.



**Note 2 - Deposits and Investments (continued)**

A summary of the District's cash and investments at August 31, 2012, are shown below:

	<u>Cash and Deposits</u>	<u>Money Market Accounts</u>	<u>External Investment Pools</u>	<u>Investment Securities</u>	<u>Total</u>
<b>Governmental Funds</b>					
General Fund	3,938,814	\$ 1,954,598	\$ 15,852,352	\$	\$ 21,745,764
Debt Service Fund	7,378	314,659	18,822,520	7,174,519	26,319,076
Capital Projects Fund	9,718	209,776	481,921		701,415
Non-major Governmental Funds	99,462	757,172	62,045		918,679
<b>Total Governmental Funds</b>	<u>4,055,372</u>	<u>3,236,205</u>	<u>35,218,838</u>	<u>7,174,519</u>	<u>49,684,934</u>
<b>Proprietary Funds</b>	<u>27,742</u>				<u>27,742</u>
<b>Fiduciary Funds</b>	<u>416,654</u>				<u>416,654</u>
<b>Total Cash and Investments</b>	<u>\$ 4,499,768</u>	<u>\$ 3,236,205</u>	<u>\$ 35,218,838</u>	<u>\$ 7,174,519</u>	<u>\$ 50,129,330</u>

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.

**Investments**

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, 2012:

<b>Investment Type</b>	<u>Fair Market Value</u>	<u>S &amp; P Credit Quality Ratings</u>	<u>Percentage of Investments</u>
Local Government Investment Pools			
Lone Star	\$ 27,928,655	AAA	61.21%
TexStar	7,290,183	AAAm	15.98%
	<u>35,218,838</u>		
Investment Securities			
Federal National Mortgage Assn	5,918,054	AA+	12.97%
Federal Home Loan Mortgage Corp	1,256,465	AA+	2.75%
Money Market Mutual Fund	3,236,205	Not Rated	7.09%
	<u>10,410,724</u>		
<b>Total Investments</b>	<u>\$ 45,629,562</u>		

**Note 2 - Deposits and Investments (continued)**

On August 5, 2011, Standard & Poor's lowered the long-term sovereign debt rating of the United States from AAA to AA+. Subsequently, on August 8, 2011, Standard & Poor's lowered the long-term credit rating for the governmental sponsored enterprises (GSE's), including Fannie Mae (FNMA) from AAA to AA+

**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 assets 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, 2012, TexSTAR and Lone Star had a weighted average maturity of 52 days and 46 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:

	<b>Fair Market Value</b>	<b>Weighted Average Maturity (Days)</b>
Cash and deposits	\$ 4,276,515	N/A
Certificates of deposit	223,253	136
<b>Investments:</b>		
Local Government Investment Pools:		
Lone Star	27,928,655	46
TexStar	7,290,183	52
Investment Securities:		
Federal National Mortgage Assn	5,918,054	62
Federal Home Loan Mortgage Corp	1,256,465	108
Money Market Mutual Fund	3,236,205	1
<b>Total Investments</b>	<u>45,629,562</u>	<u>48</u>
<b>Total Cash and Investments</b>	<u>\$ 50,129,330</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, 2012, 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.

**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 increase in the fair value of these investments during the year ended August 31, 2012, is included in investment earnings as follows:

Investment earnings	\$ 234,928
Net increase (decrease) in investment values	<u>168,419</u>
<b>Total Investment earnings</b>	<u>\$ 403,347</u>

**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 2011-2012 were \$1.09 and \$0.34, respectively, based on an adjusted assessed property valuation of approximately \$3.51 billion resulting in an adjusted tax levy of approximately \$50.1 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, 2012, consisted of the following:

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
Property Taxes	\$ 3,102,808	\$ 739,966	\$	\$ 3,842,774
Due from other governments	1,382,030		512,146	1,894,176
Interest	70			70
Other	253,412			253,412
Gross Receivables	4,738,320	739,966	512,146	5,990,432
Less allowance for doubtful accounts	(1,490,296)	(249,990)		(1,740,286)
<b>Net Total Receivables</b>	<b>\$ 3,248,024</b>	<b>\$ 489,976</b>	<b>\$ 512,146</b>	<b>\$ 4,250,146</b>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenues reported in the governmental funds were as follows:

	<b>Unavailable</b>	<b>Unearned</b>
Delinquent property taxes receivable (General Fund)	\$ 1,447,713	\$
Delinquent property taxes receivable (Debt Service Fund)	444,421	
Advanced collection of fees		81,566
	<b>\$ 1,892,134</b>	<b>\$ 81,566</b>

**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, 2012, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 481,363	\$ 412,453
Debt Service Fund	288,931	
Proprietary Funds	541	
Fiduciary Funds	1,251	
Nonmajor Governmental Funds	121,730	481,363
	<u>\$ 893,816</u>	<u>\$ 893,816</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” The following is a summary of the District’s transfers for the year ended August 31, 2012:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Proprietary Fund	\$ 186,552

**Note 6 - Capital Assets**

**Changes in Capital Assets**

A summary of changes in general fixed assets for the year ended August 31, 2012, are as follows:

	<u>Balance August 31, 2011</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
<b>Total Capital assets, not being depreciated</b>	<u>5,775,196</u>			<u>5,775,196</u>
Capital assets, being depreciated:				
Buildings and improvements	214,400,467	1,660,335		216,060,802
Furniture and equipment	9,712,089	393,005	(125,896)	9,979,198
<b>Total Capital assets, being depreciated</b>	<u>224,112,556</u>	<u>2,053,340</u>	<u>(125,896)</u>	<u>226,040,000</u>
Less accumulated depreciation for:				
Buildings and improvements	(46,159,807)	(4,418,705)		(50,578,512)
Furniture and Equipment	(5,567,822)	(693,684)	125,896	(6,135,610)
<b>Total Accumulated depreciation</b>	<u>(51,727,629)</u>	<u>(5,112,389)</u>	<u>125,896</u>	<u>(56,714,122)</u>
<b>Governmental Capital Assets</b>	<u>\$ 178,160,123</u>	<u>\$ (3,059,049)</u>	<u>\$</u>	<u>\$ 175,101,074</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	\$ 3,012,670
Instructional resources and media services	134,896
Instructional leadership	44,965
School leadership	134,896
Guidance, counseling and evaluation services	44,965
Health services	44,965
Student transportation	561,308
Food Services	390,129
Extracurricular activities	428,838
General administration	44,965
Plant maintenance and operations	224,827
Data processing services	44,965
	<u>\$ 5,112,389</u>

The District did not have active construction projects as of August 31, 2012.

**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, 2012, follows:

	<u>Balance August 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2012</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 173,722,379	\$ 3,559,996	\$ (9,790,111)	\$ 167,492,264	\$ 4,594,016
Less deferred amounts:					
For issuance premiums/discounts	1,886,296	345,705	(122,891)	2,109,110	
Gain or loss on refunding bonds	(1,289,971)	(235,201)	86,928	(1,438,244)	
Accreted interest on premium compound interest bonds	1,125,852	62,277	(389,889)	798,240	114,972
	<u>\$ 175,444,556</u>	<u>\$ 3,732,777</u>	<u>\$ (10,215,963)</u>	<u>\$ 168,961,370</u>	<u>\$ 4,708,988</u>

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

Bonded long-term debt, at August 31, 2012, 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 and Refunding Bonds, Series 2003A	4.50% to 4.63%	2028	11,925,000
Unlimited Tax School Building and Refunding Bonds, Series 2004	3.35% to 4.40%	2029	6,030,000
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	8,625,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	5,675,000
Unlimited Tax School Building Bonds, Series 2006	4.00% to 5.00%	2036	14,875,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	0.00% to 5.00%	2037	43,447,819
Unlimited Tax School Building Bonds, Series 2008	0.00% to 5.00%	2038	16,530,000
Unlimited Tax Refunding Bonds, Series 2009	2.00% to 3.13%	2019	4,490,000
Unlimited Tax Refunding Bonds, Series 2010	1.75% to 4.00%	2027	18,664,999
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	8,654,450
Unlimited Tax School Building Bonds, Series 2011	2.00% to 3.00%	2041	5,915,000
Unlimited Tax Refunding Bonds, Series 2011	2.00% to 3.00%	2028	3,459,996
			<u>\$ 167,492,264</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, 2012, follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 4,594,016	\$ 6,903,711	\$ 11,497,727
2014	4,393,590	7,124,711	11,518,301
2015	12,699,661	6,860,835	19,560,496
2016	5,610,000	6,350,354	11,960,354
2017	5,840,000	6,127,830	11,967,830
2018-2022	35,570,000	26,712,979	62,282,979
2023-2027	45,640,000	18,856,630	64,496,630
2028-2032	23,239,997	10,230,170	33,470,167
2033-2037	26,045,000	3,814,620	29,859,620
2038-2042	3,860,000	253,726	4,113,726
	<u>\$ 167,492,264</u>	<u>\$ 93,235,566</u>	<u>\$ 260,727,830</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, Refunding Series 2010 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	\$ 1,280,216	\$ 732,818	\$ 547,398	\$ 1,390,000	2014-2015
2010A	365,292	114,450	250,842	370,000	2013-2014
	<u>\$ 1,645,508</u>	<u>\$ 847,268</u>	<u>\$ 798,240</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 Assets (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, 2012:

<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	\$ 5,918,054	\$ 8,000,000	2015
Unlimited Tax School Building Bonds, Series 2005	1,256,465	3,000,000	2020
	<u>\$ 7,174,519</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, 2012, \$2,875,000 of previously refunded debt outstanding was considered defeased.

**Advanced Refunding**

As mentioned above, on December 1, 2011, the District issued Unlimited Tax Refunding Bonds, Series in the amount of \$3,559,996. The amount of the refunded bonds totaled \$3,560,000. As a result, the refunded bonds have been removed from the governmental activities column of the statement of net assets. Interest rates on the bonds range from 2.0 percent to 3.5 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$235,201. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the new debt issued. The transaction also resulted in an economic gain of \$554,443.



**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>Nonmajor Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 43,709,394	\$ 13,730,624	\$	\$ 57,440,018
Investment Income	35,282	364,294	3,771	403,347
Co-curricular student activities	93,057			93,057
Food Sales			689,932	689,932
Other	156,992		58,129	215,121
	<u>\$ 43,994,725</u>	<u>\$ 14,094,918</u>	<u>\$ 751,832</u>	<u>\$ 58,841,475</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](http://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 2012, 2011, and 2010. The State contributed at a rate of 6.000% for fiscal year 2012 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 6.0% for fiscal year 2012, 6.644% for fiscal year 2011 and 6.4% most of fiscal year 2010 (6.58% between September 2009 and December 2009).

**Note 9 - Retirement Plan (continued)**

**Contributions**

Contributions made by the State, District and staff members for the years ended August 31, 2012, 2011, and 2010, are as follows:

<b>Fiscal Year</b>	<b>Contributions Required and Made (in \$millions)</b>				<b>Annual Covered Payroll</b>
	<b>State</b>	<b>District</b>	<b>Employees</b>	<b>Totals</b>	
2012	\$ 1.928	\$ 0.758	\$ 2.865	\$ 5.551	\$ 44.768
2011	2.160	0.871	2.920	5.951	45.624
2010	2.042	0.813	2.784	5.639	43.500

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](http://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 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2012, 2011, and 2010. 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 1.0%.

Contributions made by the State, District and staff members for the years ended August 31, 2012, 2011, and 2010, are as follows:

Fiscal Year	Contributions Required and Made (in \$millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2012	\$ 0.415	\$ 0.279	\$ 0.291	\$ 0.985	\$ 44.768
2011	0.428	0.279	0.297	1.004	45.624
2010	0.409	0.269	0.283	0.961	43.500

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, 2012, 2011 and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$115,083, \$104,391 and \$108,706, 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 period ended August 31, 2012, the payment received under this program on behalf of the District was \$108,831. 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

*For the Year Ended August 31, 2012*

<b>Data Control Codes</b>	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	
<b>Revenues</b>			
5700	Local and intermediate sources	\$ 44,821,750	\$ 45,705,614
5800	State program revenues	19,302,264	16,245,200
5900	Federal program revenues	461,824	1,500,000
<b>5020</b>	<b>Total revenues</b>	<b>64,585,838</b>	<b>63,450,814</b>
<b>Expenditures</b>			
<b>Current:</b>			
0011	Instruction	35,245,628	34,561,600
0012	Instructional resources and media services	735,651	735,651
0013	Curriculum and staff development	110,465	108,824
0021	Instructional leadership	2,009,487	2,010,531
0023	School leadership	4,213,222	4,122,292
0031	Guidance, counseling and evaluation services	1,892,565	1,637,565
0032	Social work services	39,750	39,750
0033	Health services	580,765	605,615
0034	Student transportation	3,402,364	3,420,739
0036	Extracurricular activities	1,502,773	1,585,949
0041	General administration	2,132,351	2,065,773
0051	Facilities maintenance and operations	8,604,076	7,921,695
0052	Security and monitoring services	714,120	664,120
0053	Data processing services	656,463	609,643
0061	Community services	6,350	7,670
<b>Debt Service:</b>			
0071	Principal on long-term debt	739,670	739,670
0072	Interest on long-term debt		
<b>Capital outlay:</b>			
0081	Capital outlay	862,192	863,526
<b>Intergovernmental:</b>			
0091	Contracted instructional services between schools	500,000	631,100
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	39,000	39,000
0099	Other intergovernmental charges	489,607	469,357
<b>6030</b>	<b>Total Expenditures</b>	<b>64,476,499</b>	<b>62,840,070</b>
1100	Excess (deficiency) of revenues over expenditures	109,339	610,744
<b>Other Financing Sources (Uses)</b>			
7912	Sale of real or personal property	9,000	
7949	Other resources		18,754
8911	Transfers Out	(155,000)	(170,000)
<b>7080</b>	<b>Total other financing sources and uses</b>	<b>(146,000)</b>	<b>(151,246)</b>
1200	Net change in fund balances	(36,661)	459,498
<b>0100</b>	<b>Fund balances - beginning</b>	<b>18,982,370</b>	<b>18,982,370</b>
<b>3000</b>	<b>Fund balances - ending</b>	<b>\$ 18,945,709</b>	<b>\$ 19,441,868</b>

*Exhibit G-1*

<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 43,994,725	\$ (1,710,889)
17,499,487	1,254,287
2,061,664	561,664
<u>63,555,876</u>	<u>105,062</u>
33,680,016	881,584
691,643	44,008
86,221	22,603
1,908,239	102,292
4,077,915	44,377
1,569,565	68,000
32,743	7,007
581,253	24,362
3,273,124	147,615
1,510,925	75,024
1,874,996	190,777
7,612,556	309,139
624,079	40,041
589,782	19,861
4,646	3,024
500,000	239,670
239,669	(239,669)
713,399	150,127
2,120,821	(1,489,721)
5,372	33,628
460,181	9,176
<u>62,157,145</u>	<u>682,925</u>
<u>1,398,731</u>	<u>787,987</u>
26,283	26,283
51,478	32,724
(186,552)	(16,552)
<u>(108,791)</u>	<u>42,455</u>
1,289,940	830,442
18,982,370	
<u>\$ 20,272,310</u>	<u>\$ 830,442</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, 2012.

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, 2011. 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 contracted instructional services between schools in the amount of \$1,489,721.

Expenditures for food services in the Child Nutrition Fund exceeded appropriations by \$96,914.



**OTHER SUPPLEMENTARY INFORMATION**

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
*August 31, 2012*

<b>Data Control Codes</b>		<b>211</b>	<b>224</b>	<b>225</b>
		<b>ESEA Title I Part A</b>	<b>IDEA B Formula</b>	<b>IDEA B Preschool Grant</b>
	<b>Assets</b>			
1110	Cash and temporary investments	\$	\$	\$
	Receivables:			
1240	Receivables from other governments	104,889	91,745	
1260	Due from other funds			
1310	Inventories, at cost			
1000	<b>Total Assets</b>	<u>\$ 104,889</u>	<u>\$ 91,745</u>	<u>\$</u>
	<b>Liabilities and Fund Balance</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$ 2,781	\$	\$
2160	Accrued wages payable			
2170	Due to other funds	102,108	91,745	
2300	Deferred revenues			
2000	<b>Total Liabilities</b>	<u>104,889</u>	<u>91,745</u>	
	<b>Fund Balance:</b>			
	<b>Nonspendable:</b>			
3410	Inventories			
	<b>Restricted:</b>			
3450	Grant Funds			
3470	Capital acquisitions			
3000	<b>Total Fund Balances</b>			
4000	<b>Total Liabilities and Fund Balance</b>	<u>\$ 104,889</u>	<u>\$ 91,745</u>	<u>\$</u>

226	240	244	255	263	265
<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>	<u>21st Century Grant</u>
\$	\$ 840,821	\$	\$	\$	\$ 8,670
	96,932		45,020	12,023	121,991
	64,338				
<u>\$</u>	<u>\$ 1,002,091</u>	<u>\$</u>	<u>\$ 45,020</u>	<u>\$ 12,023</u>	<u>\$ 130,661</u>
\$	\$ 122,756	\$	\$	\$ 120	\$ 3,909
	60,968				3,135
	18,666		45,020	11,903	123,617
	14,685				
<u>\$</u>	<u>217,075</u>	<u>\$</u>	<u>45,020</u>	<u>12,023</u>	<u>130,661</u>
	64,338				
	720,678				
	785,016				
<u>\$</u>	<u>\$ 1,002,091</u>	<u>\$</u>	<u>\$ 45,020</u>	<u>\$ 12,023</u>	<u>\$ 130,661</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**COMBINING BALANCE SHEET**

**ALL NONMAJOR GOVERNMENTAL FUNDS**

August 31, 2012

<b>Data Control Codes</b>		<b>287</b>	<b>289</b>	<b>397</b>
		<b>Education Jobs</b>	<b>Federally Funded Special Revenue Fund</b>	<b>Advanced Placement Incentive</b>
	<b>Assets</b>			
1110	Cash and temporary investments	\$	\$	\$
	Receivables:			
1240	Receivables from other governments		14,500	
1260	Due from other funds			
1310	Inventories, at cost			
1000	<b>Total Assets</b>	\$	\$ 14,500	\$
	<b>Liabilities and Fund Balance</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$	\$
2160	Accrued wages payable			
2170	Due to other funds		14,500	
2300	Deferred revenues			
2000	<b>Total Liabilities</b>		14,500	
	<b>Fund Balance:</b>			
	<b>Nonspendable:</b>			
3410	Inventories			
	<b>Restricted:</b>			
3450	Grant Funds			
3470	Capital acquisitions			
3000	<b>Total Fund Balances</b>			
4000	<b>Total Liabilities and Fund Balance</b>	\$	\$ 14,500	\$

410	418	420	425	429
<u>Instructional Materials</u>	<u>Health Science</u>	<u>College Readiness for Middle School Students</u>	<u>Mentoring Program</u>	<u>Texas Educators' Excellence</u>
\$ 30	\$ 12,908	\$	\$	\$
121,730	8,914	16,132		
<u>\$ 121,760</u>	<u>\$ 21,822</u>	<u>\$ 16,132</u>	<u>\$</u>	<u>\$</u>
\$ 93,919	\$	\$ 9,082	\$	\$
	7,295	171		
	14,527	6,879		
<u>93,919</u>	<u>21,822</u>	<u>16,132</u>	<u>\$</u>	<u>\$</u>
27,841				
<u>27,841</u>				
<u>\$ 121,760</u>	<u>\$ 21,822</u>	<u>\$ 16,132</u>	<u>\$</u>	<u>\$</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**COMBINING BALANCE SHEET**

**ALL NONMAJOR GOVERNMENTAL FUNDS**

August 31, 2012

Data Control Codes		465		699
		Pass Grant (ECHS)	Total Special Revenue Funds	Capital Projects Fund
	<b>Assets</b>			
1110	Cash and temporary investments	\$ 56,250	\$ 918,679	\$ 701,415
	Receivables:			
1240	Receivables from other governments		512,146	
1260	Due from other funds		121,730	
1310	Inventories, at cost		64,338	
1000	<b>Total Assets</b>	<u>\$ 56,250</u>	<u>\$ 1,616,893</u>	<u>\$ 701,415</u>
	<b>Liabilities and Fund Balance</b>			
	<b>Liabilities:</b>			
	<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$ 232,567	\$ 54,904
2160	Accrued wages payable		71,569	10,595
2170	Due to other funds	26,367	455,332	26,031
2300	Deferred revenues		14,685	
2000	<b>Total Liabilities</b>	<u>26,367</u>	<u>774,153</u>	<u>91,530</u>
	<b>Fund Balance:</b>			
	<b>Nonspendable:</b>			
3410	Inventories		64,338	
	<b>Restricted:</b>			
3450	Grant Funds	29,883	778,402	
3470	Capital acquisitions			609,885
3000	<b>Total Fund Balances</b>	<u>29,883</u>	<u>842,740</u>	<u>609,885</u>
4000	<b>Total Liabilities and Fund Balance</b>	<u>\$ 56,250</u>	<u>\$ 1,616,893</u>	<u>\$ 701,415</u>

**Total Nonmajor  
Governmental  
Funds**

\$	1,620,094
	512,146
	121,730
	64,338
\$	<u>2,318,308</u>

\$	287,471
	82,164
	481,363
	14,685
	<u>865,683</u>

	64,338
	778,402
	609,885
	<u>1,452,625</u>
\$	<u>2,318,308</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, 2012*

<b>Data Control Codes</b>		<b>211</b>	<b>224</b>	<b>225</b>
		<b>ESEA Title I Part A</b>	<b>IDEA B Formula</b>	<b>IDEA B Preschool Grant</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	1,135,082	1,098,734	17,522
5020	<b>Total revenues</b>	1,135,082	1,098,734	17,522
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction	1,117,063	813,434	17,522
0013	Curriculum and instructional staff development			
0021	Instructional leadership	6,933		
0031	Guidance, counseling and evaluation services		285,300	
0035	Food service			
0051	Facilities maintenance and operations			
0061	Community services	11,086		
	<b>Capital outlay:</b>			
0081	Capital outlay			
6030	<b>Total Expenditures</b>	1,135,082	1,098,734	17,522
1200	Net change in fund balances			
0100	<b>Fund balance - beginning</b>			
3000	<b>Fund balance - ending</b>	\$	\$	\$



226	240	244	255	263	265
<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>	<u>21st Century Grant</u>
\$	\$ 693,178	\$	\$	\$	\$
	108,799				
173,495	3,855,110	62,812	159,851	214,139	385,513
<u>173,495</u>	<u>4,657,087</u>	<u>62,812</u>	<u>159,851</u>	<u>214,139</u>	<u>385,513</u>
173,495		62,812	143,584	214,139	369,499
			16,267		
	4,445,204				16,014
<u>173,495</u>	<u>4,445,204</u>	<u>62,812</u>	<u>159,851</u>	<u>214,139</u>	<u>385,513</u>
	211,883				
	573,133				
<u>\$</u>	<u>\$ 785,016</u>	<u>\$</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, 2012**

<b>Data Control Codes</b>		<b>287</b>	<b>289</b>	<b>397</b>
		<b>Education Jobs</b>	<b>Federally Funded Special Revenue Fund</b>	<b>Advanced Placement Incentive</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			923
5900	Federal program revenues	1,148,055	14,500	
5020	<b>Total revenues</b>	<u>1,148,055</u>	<u>14,500</u>	<u>923</u>
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction	1,148,055	14,500	
0013	Curriculum and instructional staff development			923
0021	Instructional leadership			
0031	Guidance, counseling and evaluation services			
0035	Food service			
0051	Plant maintenance and operations			
0061	Community services			
	<b>Capital outlay:</b>			
0081	Capital outlay			
6030	<b>Total Expenditures</b>	<u>1,148,055</u>	<u>14,500</u>	<u>923</u>
1200	Net change in fund balances			
0100	<b>Fund balance - beginning</b>			
3000	<b>Fund balance - ending</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>

410	418	420	425	429
<u>Instructional Materials</u>	<u>Health Science</u>	<u>College Readiness for Middle School Students</u>	<u>Mentoring Program</u>	<u>Texas Educators' Excellence</u>
\$ 826,748	\$ 32,145	\$ 67,243	\$ 26,112	\$ 79
<u>826,748</u>	<u>32,145</u>	<u>67,243</u>	<u>26,112</u>	<u>79</u>
798,907	31,794 351	67,243	26,112	79
<u>798,907</u>	<u>32,145</u>	<u>67,243</u>	<u>26,112</u>	<u>79</u>
27,841				
<u>\$ 27,841</u>	<u>\$</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, 2012*

		465			699
<b>Data Control Codes</b>		<b>Pass Grant (ECHS)</b>	<b>Total Special Revenue Fund</b>		<b>Capital Projects Fund</b>
<b>Revenues</b>					
5700	Local, intermediate, and out-of-state	\$ 56,250	\$ 749,428	\$	2,404
5800	State program revenues		1,062,049		
5900	Federal program revenues		8,264,813		
5020	<b>Total revenues</b>	<u>56,250</u>	<u>10,076,290</u>		<u>2,404</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	26,367	5,024,605		
0013	Curriculum and instructional staff development		1,274		
0021	Instructional leadership		23,200		
0031	Guidance, counseling and evaluation services		285,300		
0035	Food service		4,445,204		
0051	Plant maintenance and operations		16,014		
0061	Community services		11,086		
<b>Capital outlay:</b>					
0081	Capital outlay				1,734,993
6030	<b>Total Expenditures</b>	<u>26,367</u>	<u>9,806,683</u>		<u>1,734,993</u>
1200	Net change in fund balances	29,883	269,607		(1,732,589)
0100	<b>Fund balance - beginning</b>		<u>573,133</u>		<u>2,342,474</u>
3000	<b>Fund balance - ending</b>	<u>\$ 29,883</u>	<u>\$ 842,740</u>	<u>\$</u>	<u>609,885</u>

**Total-Other  
Governmental  
Funds**

\$	751,832
	1,062,049
	8,264,813
	<u>10,078,694</u>
	5,024,605
	1,274
	23,200
	285,300
	4,445,204
	16,014
	11,086
	1,734,993
	<u>11,541,676</u>
	(1,462,982)
	2,915,607
	<u>1,452,625</u>

*(This page intentionally left blank.)*

## **TEA REQUIRED INFORMATION**

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**

*For the Year Ended August 31, 2012*

<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 8/31/2011</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2003 and prior	Various	Various	Various	\$ 402,840
2004	1.47950	0.22350	1,749,209,818	123,874
2005	1.50000	0.24600	1,464,060,338	122,361
2006	1.50000	0.25000	1,927,391,387	125,058
2007	1.37000	0.26400	2,167,878,396	106,732
2008	1.04000	0.39000	3,262,365,274	596,412
2009	1.04000	0.39000	3,383,408,252	1,006,494
2010	1.04000	0.39000	3,449,039,580	1,335,026
2011	1.04000	0.39000	3,243,212,098	1,176,699
2012	1.09000	0.34000	3,505,474,406	
<b>1000 Totals</b>				<u>\$ 4,995,496</u>
9000	Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code (Function 97)			<u>-0-</u>



20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/2012</u>
\$	\$ 15,693	\$ 1,810	\$ (4,111)	\$ 381,226
	5,946	898	(849)	116,181
	6,341	1,040	1,023	116,003
	16,397	2,733	8,848	114,776
	21,776	4,196	9,754	90,514
	81,625	30,609	(380,343)	103,835
	190,552	71,457	(600,638)	143,847
	518,274	194,353	(367,891)	254,508
	346,766	130,037	(374,923)	324,973
<u>50,128,284</u>	<u>42,450,151</u>	<u>13,241,332</u>	<u>6,207,059</u>	<u>643,860</u>
<u>\$ 50,128,284</u>	<u>\$ 43,653,521</u>	<u>\$ 13,678,465</u>	<u>\$ 4,497,929</u>	<u>2,289,723</u>
				<u>1,553,051</u>
				<u>\$ 3,842,774</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF**  
**INDIRECT COSTS FOR 2013-2014**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**For the Year Ended August 31, 2012**

Exhibit J-2

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS		\$ 151,360	\$ 266,932	\$ 1,536,640			\$ 1,954,932
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)							-
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services	17,946		23,940				41,886
6212	Audit Services				64,175			64,175
6213	(Appraisal district costs only from function 99)		460,181					460,181
6214	Lobbying				8,437			8,437
621X	Other Prof. Services	3,512		25,173				28,685
6220	Tuition and Transfer Payments							
6230	Education Service Centers				8,240			8,240
6240	Contr. Maint. and Repair					41		41
6250	Utilities					6,680		6,680
6260	Rentals				49,764			49,764
6290	Miscellaneous Contr.	1,582	8,379	3,000	68,922			81,883
6320	Textbooks and Reading							
6330	Testing Materials							
63XX	Other Supplies Materials	4,976	8,806	3,767	66,343			83,892
6410	Travel, Subsistence, Stipends	9,656	2,092	9,614	23,484			44,846
6420	Ins. and Bonding Costs		250		175			425
6430	Election Costs	13,089						13,089
6490	Miscellaneous Operating	23,366	1,915	6,605	39,181			71,067
6500	Debt Service							
6600	Capital Outlay						6,732	6,732
6000	TOTAL	\$ 74,127	\$ 632,983	\$ 339,031	\$ 1,865,361	\$ 6,721	\$ 6,732	\$ 2,924,955

Total expenditures/expenses for General and Special Revenue Funds  
 (plus Food Service Enterprise Fund if present) 9 .....\$71,963,828

Less: Deductions of Unallowable Costs

**Fiscal Year**

Total Capital Outlay (6600)	10	.....\$833,444
Total Debt & Lease (6500)	11	.....739,669
Plant Maintenance (Function 51, 6100-6400)	12	.....7,541,197
Food (Function 35, 6341 and 6499)	13	.....2,072,111
Stipends (6413)	14	.....
Column 4 (above) - Total Indirect Cost		.....1,865,361
Subtotal:		.....13,051,782
Net Allowed Direct Cost		.....58,912,046

**Cumulative**

Total Cost of Buildings before Depreciation (1520)	15	.....209,894,974
Historical Cost of Buildings over 50 years old	16	.....
Amount of Federal Money in building Cost (Net of #16)	17	.....
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	.....9,979,197
Historical Cost of Furniture & Equipment over 16 years old	19	.....517,157
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	.....118,775

(8) Note A - \$589,782 in Function 53 expenditures are included in this report on administrative costs.  
 \$460,181 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)**  
**GENERAL FUND**  
**August 31, 2012**

*Exhibit J-3*

<b>Data Control Code</b>	<b>Explanation</b>	<b>Amount</b>
1.	Total General Fund Balance as of 8-31-12 (Exhibit C-1 object 3000 for the General Fund only)	\$ 20,272,310
2.	Total Nonspendable Fund Balance 8-31-12 (from Exhibit C-1 - total of object 341X - 344X for the General Fund only)	409,125
3.	Total Restricted Fund Balance 8-31-12 (from Exhibit C-1 - total of object 345X - 349X for the General Fund only)	27,447
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)	2,343,394
6.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	15,328,808
7	Estimate of two month's average cash disbursements during the fiscal year	10,400,000
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>28,508,774</u>
13.	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (1-12)	<u>\$ (8,236,464)</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, 2012

Exhibit J-4

Data Control Codes		Child Nutrition			Variance with Final Budget Positive (Negative)
		Budget		Actual	
		Original	Final		
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 757,800	\$ 782,860	\$ 693,178	\$ (89,682)
5800	State Program Revenues	110,000	112,000	108,799	(3,201)
5900	Federal Program Revenues	3,763,730	3,501,430	3,855,110	353,680
<b>5020</b>	<b>Total Revenues</b>	<u>4,631,530</u>	<u>4,396,290</u>	<u>4,657,087</u>	<u>260,797</u>
<b>Expenditures</b>					
<b>Current:</b>					
0035	Food Services	4,695,469	4,348,290	4,445,204	(96,914)
<b>6030</b>	<b>Total Expenditures</b>	<u>4,695,469</u>	<u>4,348,290</u>	<u>4,445,204</u>	<u>(96,914)</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(63,939)</u>	<u>48,000</u>	<u>211,883</u>	<u>163,883</u>
<b>Other Financing Sources (Uses)</b>					
7990	Other Financing Sources	4,000	4,000		(4,000)
8990	Other Financing (Uses)	(2,000)	(2,000)		2,000
<b>7080</b>	<b>Total other financing sources (uses)</b>	<u>2,000</u>	<u>2,000</u>		<u>(2,000)</u>
1200	Increase (Decrease) in Fund Balance	(61,939)	50,000	211,883	161,883
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>573,133</u>	<u>573,133</u>	<u>573,133</u>	
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 511,194</u>	<u>\$ 623,133</u>	<u>\$ 785,016</u>	<u>\$ 161,883</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

*Exhibit J-5*

**BUDGETARY COMPARISON SCHEDULE**

**DEBT SERVICE FUND**

*For the Year Ended August 31, 2012*

<b>Data Control Codes</b>	<b>Debt Service Fund</b>					
	<b>Budget</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>		
	<b>Original</b>	<b>Final</b>				
<b>Revenues</b>						
5700	Local, Intermediate, and Out-of-State		\$ 12,920,000	\$ 13,080,000	\$ 14,094,918	\$ 1,014,918
<b>5020</b>	<b>Total Revenues</b>		<u>12,920,000</u>	<u>13,080,000</u>	<u>14,094,918</u>	<u>1,014,918</u>
<b>Expenditures</b>						
<b>Current:</b>						
<b>Debt Service:</b>						
0071	Principal and Interest on Long-term Debt		11,937,371	14,263,930	5,730,111	8,533,819
0073	Bond Issuance Costs and Fees				7,199,531	(7,199,531)
<b>6030</b>	<b>Total Expenditures</b>		<u>11,937,371</u>	<u>14,263,930</u>	<u>12,929,642</u>	<u>1,334,288</u>
1100	Excess (Deficiency) Revenues Over Expenditures		<u>982,629</u>	<u>(1,183,930)</u>	<u>1,165,276</u>	<u>2,349,206</u>
<b>Other Financing Sources (Uses)</b>						
7910	Refunding bonds issued			3,905,705	3,559,996	(345,709)
7916	Premium				345,705	345,705
8949	Payment to refunded bond escrow agent			(3,880,410)	(3,795,201)	85,209
8989	Non-Operating Expenses		<u>(982,629)</u>	<u>(991,365)</u>		<u>991,365</u>
<b>7080</b>	<b>Total other financing sources (uses)</b>		<u>(982,629)</u>	<u>(966,070)</u>	<u>110,500</u>	<u>1,076,570</u>
1200	Increase (Decrease) in Fund Balance			(2,150,000)	1,275,776	3,425,776
<b>0100</b>	<b>Fund Balance - beginning</b>		<u>25,377,786</u>	<u>25,377,786</u>	<u>25,377,786</u>	
<b>3000</b>	<b>Fund Balance - ending</b>		<u>\$ 25,377,786</u>	<u>\$ 23,227,786</u>	<u>\$ 26,653,562</u>	<u>\$ 3,425,776</u>

*(This page intentionally left blank)*

**FEDERAL AWARDS SECTION**

*(This page intentionally left blank)*



**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 the accompanying financial statements of the governmental activities, 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, 2012, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees  
Sheldon Independent School District  
Houston, Texas  
Page 2

***Compliance and Other Matters***

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

***Closing***

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

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

Texas City, Texas  
January 11, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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

***Compliance***

We have audited Sheldon Independent School District's (the "District") compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2012.

***Internal Control over Compliance***

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 function, 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

***Closing***

This report is intended solely for the information and use of the board of trustees, the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Texas City, Texas  
January 11, 2013

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended August 31, 2012*

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unqualified
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:	Unqualified
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 Education**

Title I, Part A Cluster:	
ESEA Title I, Improving Basic Programs	84.010A
Education Jobs Fund	84.410A
21 <sup>st</sup> Century Community Learning Centers	84.287C

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, 2012***

**II. Financial Statement Findings**

**Significant Deficiencies.**

**None reported.**

**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, 2012

Exhibit K-1

(2A)	(1)	(2)	(3)
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund Number	Federal CFDA Number Federal Expenditures
<b>U.S. Department of Education</b>			
<b>Passed Through Texas Education Agency:</b>			
12610101101924000	<i>ESEA Title I, Improving Basic Programs</i>	211	84.010A \$ 1,135,082
126600011019246600	<i>IDEA Part B - Special Education Formula*</i>	224	84.027A 1,098,734
126610011019246600	<i>IDEA Part B - Preschool*</i>	225	84.173A 17,522
12660006101924	<i>IDEA Part B - High Cost*</i>	226	84.027A 173,495
12420006101924	<i>Carl D. Perkins, Basic Grant</i>	244	84.048A 62,812
12694501101924	<i>ESEA Title II, Part A - Teacher/Principal Training</i>	255	84.367A 159,851
12671001101924	<i>ESEA Title III, Part A - LEP</i>	263	84.365A 214,139
11550101101924	<i>Education Jobs Fund</i>	287	84.410A 1,148,055
69551102	<i>Summer School LEP</i>	289	84.369A 14,500
<b>Total passed through Texas Education Agency</b>			4,024,190
<b>Passed Through Harris County Department of Education:</b>			
S287B010187	<i>21 Century Community Learning Centers</i>	265	84.287C 385,513
<b>Total U.S. Department of Education</b>			4,409,703
<b>U.S. Department of Agriculture</b>			
<b>Passed Through Texas Department of Agriculture:</b>			
<i>Child Nutrition Cluster:</i>			
<i>Non Cash Assistance (Commodities)</i>			
101924	<i>National School Lunch Program**</i>	240	10.555 276,506
<b>Passed Through State Department of Education:</b>			
<i>Cash Assistance:</i>			
71301201	<i>National School Lunch Program**</i>	240	10.555 2,421,308
71401201	<i>National School Breakfast Program**</i>	240	10.553 1,157,295
<b>Total U.S. Department of Agriculture</b>			3,855,109
<b>U.S. Department of Homeland Security</b>			
<b>Passed Through Texas Department of Public Safety</b>			
1791-DR-TX	<i>Public Assistance Grant - FEMA Aid</i>	199	97.036 138,671
<b>Total U.S. Department of Homeland Security</b>			138,671
<b>U.S. Department of Energy</b>			
<b>Passed Through Railroad Commission of Texas</b>			
DE-EE0002564	<i>Texas Propane Fleet Pilot Program, ARRA</i>	199	81.086 69,250
<b>Total U.S. Department of Energy</b>			69,250
<b>Total Expenditures of Federal Awards</b>			\$ 8,472,733

\*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, 2010. 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 assets 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 deferred 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)	\$ 10,326,477
SHARS	(1,391,920)
Federal Interest Subsidy	(461,824)
Expenditures of Federal Awards per SEFA	<u>\$ 8,472,733</u>



**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
**August 31, 2012**

*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>\$ 798,240</u>

**DO NOT PRINT IN REPORTS**