

**SHELDON
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2010



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CERTIFICATE OF THE BOARD

Sheldon Independent School District
Name of School District

Harris
County

101-924
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2010, at a meeting of the board of trustees of such school district on January 18, 2011.


Board President


Board Secretary

Financial Section



Independent Auditors' Report

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the District as of August 31, 2010, and the respective changes in financial position, and the cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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
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The Management's Discussion and Analysis and budgetary comparison information on pages 5 to 13 and pages 54 to 56, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. In addition, the combining nonmajor fund statements and other schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



Texas City, Texas
January 18, 2011

Management's Discussion and Analysis

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SHELDON INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sheldon Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2010.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$52,495,188 (*net assets*). Of this amount, \$24,230,131 (*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 \$53,838,952 an increase of \$7,782,001 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase in the debt service fund balance of \$6,428,817.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$10,539,456 or 17 percent of total general fund expenditures.
- The District's total bonded debt increased by \$3,324,815 (2 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, 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 two categories: governmental 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 thirty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other thirty-one 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 fund is used to account for resources held for the benefit of students. The fiduciary fund is *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 fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

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

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 through 51 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 \$52,495,188 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 \$6,261,527. 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 67,860,125	\$ 64,064,106	\$ 9,132	\$ 10,545	\$ 67,869,257	\$ 64,074,651
Capital and non current assets	157,791,483	156,012,061			157,791,483	156,012,061
Total Assets	225,651,608	220,076,167	9,132	10,545	225,660,740	220,086,712
Current liabilities	8,075,283	12,817,261	9,057	10,470	8,084,340	12,827,731
Long term liabilities	165,081,212	161,260,948			165,081,212	161,260,948
Total Liabilities	173,156,495	174,078,209	9,057	10,470	173,165,552	174,088,679
Net Assets						
Invested in capital assets net of related debt	6,261,527	5,605,001			6,261,527	5,605,001
Restricted	22,003,455	15,411,144			22,003,455	15,411,144
Unrestricted	24,230,131	24,981,813	75	75	24,230,206	24,981,888
Total Net Assets	\$ 52,495,113	\$ 45,997,958	\$ 75	\$ 75	\$ 52,495,188	\$ 45,998,033

Net assets of \$22,003,455 are restricted for state and federal programs, debt service and local grants. The remaining balance of *unrestricted net assets* \$24,230,131 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 \$6,497,155 during the current fiscal year primarily due to increases in property taxes.

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	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for services	\$ 870,409	\$ 738,824	\$ 223,507	\$ 2,445	\$ 1,093,916	\$ 741,269
Operating grants	12,768,942	9,855,426			12,768,942	9,855,426
General Revenues						
Property taxes	62,042,821	55,111,764			62,042,821	55,111,764
State aid	10,715,181	14,427,258			10,715,181	14,427,258
Grants and contributions not restricted	352,885	172,963			352,885	172,963
Interest earnings	434,935	1,009,464			434,935	1,009,464
Other	90,260	372,223			90,260	372,223
Total Revenues	87,275,433	81,687,922	223,507	2,445	87,498,940	81,690,367
Expenses						
Instruction	41,893,056	33,957,964			41,893,056	33,957,964
Instructional resources and media services	880,770	964,175			880,770	964,175
Curriculum and staff development	430,859	443,259			430,859	443,259
Instructional leadership	1,906,189	1,875,673			1,906,189	1,875,673
School leadership	4,005,886	3,308,200			4,005,886	3,308,200
Guidance, counseling, and evaluation services	2,054,922	1,764,186			2,054,922	1,764,186
Social work services	61,022	64,275			61,022	64,275
Health services	578,039	588,312			578,039	588,312
Student transportation	3,592,875	3,153,044			3,592,875	3,153,044
Food service	4,202,628	3,480,559			4,202,628	3,480,559
Extracurricular activities	1,881,397	1,762,196			1,881,397	1,762,196
General administration	2,106,759	1,939,351			2,106,759	1,939,351
Facilities maintenance and operations	8,065,714	7,348,047			8,065,714	7,348,047
Security and monitoring services	578,030	531,668			578,030	531,668
Data processing services	449,746	139,498			449,746	139,498
Community services	22,385	16,900	479,064	86,064	501,449	102,964
Interest on long-term debt	6,655,495	7,062,185			6,655,495	7,062,185
Bond issuance costs and fees		9,457				9,457
Capital Outlay	534,946	2,394,429			534,946	2,394,429
Contracted instructional services between schools	102,548	4,959,105			102,548	4,959,105
Payments to Juvenile Justice Alternative Education Programs	18,900	14,595			18,900	14,595
Other intergovernmental charges	500,555	440,202			500,555	440,202
Total Expenses	80,522,721	76,217,280	479,064	86,064	81,001,785	76,303,344
Excess (deficiency) before special items and transfers	6,752,712	5,470,642	(255,557)	(83,619)	6,497,155	5,387,023
Special items						
Transfers	(255,557)	(83,694)	255,557	83,694		
Increase (Decrease) in Net Assets	6,497,155	5,386,948		75	6,497,155	5,387,023
Beginning net assets	45,997,958	40,611,010	75		45,998,033	40,611,010
Ending Net Assets	\$ 52,495,113	\$ 45,997,958	\$ 75	\$ 75	\$ 52,495,188	\$ 45,998,033

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

Governmental activities

Governmental activities increased the District's net assets by \$6,497,155. Key elements of this increase are as follows:

Revenues are generated primarily from two sources. State Aid Formula Grant, operating grants and contributions (program and general revenues totaling (\$23,484,123) represent 27 percent of total revenues and property taxes (\$62,042,821) represent 71 percent of total revenues. The remaining 2 percent is generated from charges for services, investment earnings, and miscellaneous revenues. Higher tax revenues were the result of the District's tax base increasing by almost 2 percent from the previous year.

The primary functional expense of the District is instruction (\$41,893,056), which represents 52 percent of total expenses. Plant maintenance and operations (\$8,065,714) represents 10 percent of total expenses. Interest on long-term debt (\$6,655,495) also 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, *unreserved 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 \$53,838,952, an increase of \$7,782,001 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to an increase in the debt service fund balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$10,539,456, while total fund balance reached \$20,291,823. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 17 percent of total general fund expenditures, while total fund balance represents 34 percent of that same amount.

The fund balance of the District's general fund decreased by \$1,646,328 during the current fiscal year primarily due to additional expenditures operating costs incurred for two new campuses and an Early Learning Center (Daycare) for the District.

The debt service fund has a total fund balance of \$20,522,014, all of which is reserved for the payment of debt service. The net increase in the debt service fund balance during the current year of \$6,428,817 was attributable to increases in local tax revenues resulting from higher than estimated property values.

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

The capital projects fund has a total fund balance of \$12,239,605 all of which is reserved or designated for authorized construction and technology projects/enhancements. The net increase in fund balance during the current year of \$2,919,306 was primarily due to the new bond issuance in the amount of \$8,200,000.

General Fund Budgetary Highlights

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

	Estimated
	Revenues
Original	\$ 59,315,330
Final	63,805,033
Total estimated revenues increase	\$ 4,489,703
	Appropriations
Original	\$ 61,353,912
Final	61,311,974
Total appropriations decrease	\$ (41,938)

The review of the final amended budget versus actual for the general fund reflected that revenues were less than budgetary estimates and although expenditures were less than budgetary estimates, the need to draw upon existing fund balances was created. Fund balances were designated in the prior years to meet Chapter 41 payments and additional start-up costs associated with the District's two new campuses.

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2010, amounts to \$157,791,483 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 1 percent.

Major capital asset events during the current fiscal year included the following:

- Construction began on the detention basin and pump station, with an approved budget of \$1.1 million.
- Renovation to four existing campus buildings continued in the current fiscal year.
- Construction began for the maintenance and transportation facility. The approved budget is 5.9 million.
- Construction began for Elementary school #5 with an approved budget of \$14.2 million.

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

Sheldon Independent School District's Capital Assets

	Balance August 31, 2009	Additions	Retirements and Transfers	Balance August 31, 2010
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Buildings and improvements	184,615,304	2,823,337		187,438,641
Furniture and equipment	8,401,511	263,662	(7,200)	8,657,973
Construction in progress		3,168,604		3,168,604
	<u>198,792,011</u>	<u>6,255,603</u>	<u>(7,200)</u>	<u>205,040,414</u>
Less accumulated depreciation for:				
Buildings and improvements	(38,458,039)	(3,765,868)		(42,223,907)
Furniture and Equipment	(4,321,911)	(710,313)	7,200	(5,025,024)
	<u>(42,779,950)</u>	<u>(4,476,181)</u>	<u>7,200</u>	<u>(47,248,931)</u>
Governmental Capital Assets	<u>\$ 156,012,061</u>	<u>\$ 1,779,422</u>	<u>\$</u>	<u>\$ 157,791,483</u>

Additional information on the District's capital assets can be found in note 6, on pages 44 through 45 of the notes to the financial statements.

Long-term liabilities

At the end of the current fiscal year, the District had \$163,397,633 in bonded debt outstanding, an increase of \$3,324,815 over the previous year. The District's bonds are sold with a "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 Standard and Poor's is "A" and from Moody's Investors Service is "A1" for general obligation debt.

Changes to long-term debt, for the year ended August 31, 2010, are as follows:

Sheldon Independent School District's Long-term Liabilities

	Balance August 31, 2009	Additions	Retirements	Balance August 31, 2010
General obligation bonds	\$ 160,072,818	\$ 8,199,815	\$ 4,875,000	\$ 163,397,633
Plus amounts for issuance premiums	842,856	1,009,308	103,339	1,748,825
Gain or loss on refunding bonds	(42,224)	(1,419,666)	(84,992)	(1,376,898)
Accreted interest on premium compound interest bonds	387,498	924,154		1,311,652
	<u>\$ 161,260,948</u>	<u>\$ 8,713,611</u>	<u>\$ 4,893,347</u>	<u>\$ 165,081,212</u>

Additional information on the District's long-term liabilities can be found in note 7, on pages 45 through 47 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 6,564 students, which is a 5 percent increase from the prior year.
- District staff totals 855 employees, which primarily consists of 495 teachers and 182 teachers' aides and secretaries.
- The District maintains 9 campuses for instruction.
- Adjusted taxable property values of the district have increased 3 percent over the past year.
- The property tax rate will remain \$1.43 per \$100 of assessed value for 2010-11.

All of these factors were considered in preparing the District's budget for the 2011 fiscal year.

The general fund reserved fund balance (\$701,793) is for future legal obligations such as investments in inventory and outstanding encumbrances. The general fund designated fund balance (\$10,695,889) is for expected wealth equalization, state revenue settlement, start up cost for one new campus, and for other emergencies if needed.

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.

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Basic Financial Statements

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SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
August 31, 2010

Exhibit A-1

Data Control Codes	Governmental Activities	Business-type Activities	Total
Assets			
1110	\$ 51,136,430	\$ 6,580	\$ 51,143,010
1220	6,150,202		6,150,202
1240	982,920		982,920
1250	70		70
1260	(2,552)	2,552	
1267	12,569		12,569
1290	243,954		243,954
1300	435,211		435,211
1420	1,681,716		1,681,716
Capital Assets, not subject to depreciation:			
1510	5,775,196		5,775,196
1580	3,168,604		3,168,604
Capital Assets, net of accumulated depreciation:			
1520	145,214,734		145,214,734
1530	3,632,949		3,632,949
1810	7,219,605		7,219,605
1000	225,651,608	9,132	225,660,740
Liabilities			
2110	2,379,432	1,333	2,380,765
2140	317,460		317,460
2150	868,629		868,629
2160	2,191,764	7,724	2,199,488
2180	1,854,719		1,854,719
2200	69		69
2300	463,210		463,210
Noncurrent Liabilities:			
2501	4,969,447		4,969,447
2502	160,111,765		160,111,765
2000	173,156,495	9,057	173,165,552
Net Assets			
3200	6,261,527		6,261,527
Restricted for:			
3840	777,214		777,214
3850	21,226,241		21,226,241
3900	24,230,131	75	24,230,206
3000	\$ 52,495,113	\$ 75	\$ 52,495,188

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2010

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
	Governmental activities:			
11	Instruction	\$ 41,893,056	\$ 44,884	\$ 7,983,573
12	Instructional resources and media services	880,770		98,230
13	Curriculum and staff development	430,859		36,205
21	Instructional leadership	1,906,189		165,928
23	School leadership	4,005,886		291,407
31	Guidance, counseling, and evaluation services	2,054,922		317,389
32	Social work services	61,022		
33	Health services	578,039		47,299
34	Student transportation	3,592,875		123,700
35	Food service	4,202,628	652,786	3,278,382
36	Extracurricular activities	1,881,397	159,383	31,500
41	General administration	2,106,759		82,960
51	Facilities maintenance and operations	8,065,714	13,356	193,209
52	Security and monitoring services	578,030		
53	Data processing services	449,746		7,440
61	Community services	22,385		20,734
72	Interest on long-term debt	6,655,495		
73	Bond issuance costs and fees			
81	Capital Outlay	534,946		90,986
91	Contracted instructional services between schools	102,548		
95	Payments to Juvenile Justice Alternative Education Programs	18,900		
99	Payments to appraisal districts	500,555		
TG	Total governmental activities	<u>80,522,721</u>	<u>870,409</u>	<u>12,768,942</u>
	Business-type activities			
01	Early Learning Center - Daycare	479,063	223,507	
TB	Total business-type activities	<u>479,063</u>	<u>223,507</u>	
TP	Total primary government	<u>\$ 81,001,784</u>	<u>\$ 1,093,916</u>	<u>\$ 12,768,942</u>

Data Control Codes	
	General revenues:
	Taxes:
MT	Property taxes, levied for general purposes
DT	Property taxes, levied for debt service
SF	State-aid formula grants
GC	Grants and contributions not restricted
IE	Investment earnings
MI	Miscellaneous
FR	Transfers
TR	Total general revenues, special items, and transfers
CN	Change in net assets
NB	Net assets - beginning
NE	Net assets - ending

See Notes to the Financial Statements

Exhibit B-1

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (33,864,599)		\$ (33,864,599)
(782,540)		(782,540)
(394,654)		(394,654)
(1,740,261)		(1,740,261)
(3,714,479)		(3,714,479)
(1,737,533)		(1,737,533)
(61,022)		(61,022)
(530,740)		(530,740)
(3,469,175)		(3,469,175)
(271,460)		(271,460)
(1,690,514)		(1,690,514)
(2,023,799)		(2,023,799)
(7,859,149)		(7,859,149)
(578,030)		(578,030)
(442,306)		(442,306)
(1,651)		(1,651)
(6,655,495)		(6,655,495)
(443,960)		(443,960)
(102,548)		(102,548)
(18,900)		(18,900)
(500,555)		(500,555)
<u>(66,883,370)</u>		<u>(66,883,370)</u>
	<u>(255,557)</u>	<u>(255,557)</u>
	<u>(255,557)</u>	<u>(255,557)</u>
<u>\$ (66,883,370)</u>	<u>\$ (255,557)</u>	<u>(67,138,927)</u>
45,242,885		45,242,885
16,799,936		16,799,936
10,715,181		10,715,181
352,885		352,885
434,935		434,935
90,260		90,260
(255,557)	255,557	
<u>73,380,525</u>	<u>255,557</u>	<u>73,636,082</u>
6,497,155		6,497,155
45,997,958	75	45,998,033
<u>\$ 52,495,113</u>	<u>\$ 75</u>	<u>\$ 52,495,188</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2010

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund
Assets			
1110 Cash and temporary investments	\$ 22,785,104	\$ 12,942,497	\$ 14,124,504
Receivables:			
1220 Delinquent property taxes receivables	5,639,492	1,703,343	
1230 Allowance for uncollectible taxes (credit)	(918,328)	(274,305)	
1240 Receivables from other governments	38,948		
1250 Accrued interest	70		
1260 Due from other funds	975,459		
1290 Other receivables	243,954		
1300 Inventories	359,997		
1810 Restricted cash and temporary investments		7,219,605	
1000 Total Assets	\$ 29,124,696	\$ 21,591,140	\$ 14,124,504
Liabilities and Fund Balance			
Liabilities:			
2110 Accounts payable	\$ 435,297	\$	\$ 1,812,208
2140 Interest payable			
2150 Payroll deduction and withholdings payable	868,629		
2160 Accrued wages payable	2,095,446		
2170 Due to other funds	4,855	47,439	72,691
2180 Payable to other governments	1,854,719		
2200 Accrued expenditures			
2300 Deferred revenues	3,573,927	1,021,687	
2000 Total Liabilities	8,832,873	1,069,126	1,884,899
Fund Balance:			
Reserved for:			
3410 Inventories	359,997		
3420 Retirement of long-term debt		20,522,014	
3440 Encumbrances	221,070		2,020,963
3450 Food service			
3470 Capital acquisition program			10,218,642
3490 Other purposes	31,300		
Unreserved, Designated for:			
3510 Construction, repairs, renovation	3,500,000		
3520 Claims and judgments			
3530 Capital expenditures for equipment			
3540 Self insurance			
3590 Other purposes	5,640,000		
Unreserved, Undesignated Reported in:			
3600 General fund	10,539,456		
3610 Special revenue funds			
3000 Total fund balances	20,291,823	20,522,014	12,239,605
4000 Total Liabilities and Fund Balances	\$ 29,124,696	\$ 21,591,140	\$ 14,124,504

See Notes to the Financial Statements.

Exhibit C-1

Other Governmental Funds	Total Governmental Funds
\$ 1,284,325	\$ 51,136,430
	7,342,835
	(1,192,633)
943,972	982,920
	70
2,304	977,763
	243,954
75,214	435,211
	7,219,605
<u>\$ 2,305,815</u>	<u>\$ 67,146,155</u>

\$ 131,927	\$ 2,379,432
	868,629
96,318	2,191,764
842,761	967,746
	1,854,719
69	69
449,230	5,044,844
<u>1,520,305</u>	<u>13,307,203</u>

75,214	435,211
	20,522,014
	2,242,033
702,000	702,000
	10,218,642
	31,300
	3,500,000
	5,640,000
	10,539,456
8,296	8,296
<u>785,510</u>	<u>53,838,952</u>
<u>\$ 2,305,815</u>	<u>\$ 67,146,155</u>

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SHELDON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET ASSETS
August 31, 2010

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 53,838,952
	Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	157,791,483
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	4,581,635
3	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.	1,681,716
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
4	General obligation bonds	(163,397,633)
5	Premiums on issuance	(1,748,825)
6	Deferred loss on refunding	1,376,898
7	Accreted interest on premium compound interest bonds	(1,311,652)
8	Accrued interest payable	(317,461)
19	Total net assets - governmental activities	<u>\$ 52,495,113</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, 2010

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 45,418,294	\$ 17,059,976	\$ 41,167
5800	State program revenues	13,166,171		
5900	Federal program revenues			
5020	Total revenues	<u>58,584,465</u>	<u>17,059,976</u>	<u>41,167</u>
Expenditures				
Current:				
0011	Instruction	32,500,928		
0012	Instructional resources and media services	705,334		
0013	Curriculum and staff development	404,294		
0021	Instructional leadership	1,765,493		
0023	School leadership	3,819,063		
0031	Guidance, counseling and evaluation services	1,805,561		
0032	Social work services	61,022		
0033	Health services	524,858		
0034	Student transportation	3,089,538		
0035	Food services			
0036	Extracurricular activities	1,533,271		
0041	General administration	2,068,437		
0051	Facilities maintenance and operations	7,899,041		
0052	Security and monitoring services	578,030		
0053	Data processing services	411,424		
0061	Community services	1,651		
Debt service:				
0071	Principal and interest on long-term debt	731,772	10,636,539	
0073	Bond issuance costs and fees		448,085	163,930
Capital outlay:				
0081	Capital outlay	1,469,144		5,157,931
Intergovernmental:				
0091	Contracted instructional services between schools	102,548		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	18,900		
0099	Payments to appraisal districts	500,555		
6030	Total Expenditures	<u>59,990,864</u>	<u>11,084,624</u>	<u>5,321,861</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(1,406,399)</u>	<u>5,975,352</u>	<u>(5,280,694)</u>
Other Financing Sources (Uses)				
7901	Refunding bonds issued		25,189,815	
7911	Capital-related debt issued			8,200,000
7915	Transfers in	15,398		
7916	Premium or discount on issuance of bonds		1,873,316	
7989	Other non-operating revenues	230		
8911	Transfers out	(255,557)		
8949	Payments to refunding escrow agent		(26,609,666)	
7080	Total other financing sources (uses)	<u>(239,929)</u>	<u>453,465</u>	<u>8,200,000</u>
1200	Net change in fund balances	(1,646,328)	6,428,817	2,919,306
0100	Fund Balance - beginning	<u>21,938,151</u>	<u>14,093,197</u>	<u>9,320,299</u>
3000	Fund Balance - ending	<u>\$ 20,291,823</u>	<u>\$ 20,522,014</u>	<u>\$ 12,239,605</u>

See Notes to the Financial Statements.

Exhibit C-3

Other Governmental Funds	Total Governmental Funds
\$ 654,393	\$ 63,173,830
644,552	13,810,723
10,026,285	10,026,285
<u>11,325,230</u>	<u>87,010,838</u>
6,752,844	39,253,772
60,470	765,804
26,565	430,859
102,374	1,867,867
71,857	3,890,920
211,039	2,016,600
	61,022
14,859	539,717
	3,089,538
3,872,699	3,872,699
	1,533,271
	2,068,437
5,199	7,904,240
	578,030
	411,424
20,734	22,385
	11,368,311
	612,015
90,986	6,718,061
	102,548
	18,900
	500,555
<u>11,229,626</u>	<u>87,626,975</u>
<u>95,604</u>	<u>(616,137)</u>
	25,189,815
	8,200,000
53,437	68,835
	1,873,316
	230
(68,835)	(324,392)
	(26,609,666)
<u>(15,398)</u>	<u>8,398,138</u>
80,206	7,782,001
<u>705,304</u>	<u>46,056,951</u>
<u>\$ 785,510</u>	<u>\$ 53,838,952</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, 2010*

Data Control Codes		
	Net change in fund balances - total governmental funds (from C-3)	\$ 7,782,001
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,779,422
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	264,366
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	4,875,000
4	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.	(35,263,131)
5	Payment to escrow agent for payment of refunded bonds	26,609,666
6	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	612,015
	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:	
7	Increase in interest payable not recognized in fund statements	(43,998)
8	Accreted interest on capital appreciation bonds and amortization of bond issuance costs and deferred loss on refunding	(118,186)
	Change in net assets of governmental activities (see B-1)	\$ 6,497,155

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET ASSETS

PROPRIETARY FUND

August 31, 2010

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
	Assets	
	Current Assets:	
1110	Cash and cash equivalents	\$ 6,580
1260	Due from other funds	2,552
1000	Total Assets	<u>\$ 9,132</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	\$ 1,333
2160	Accrued wages payable	7,724
2000	Total Liabilities	<u>9,057</u>
	Net Assets	
3900	Unrestricted net assets	75
3000	Total Net Assets	<u>\$ 75</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, 2010

Exhibit D-2

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	Operating Revenues	
5739	Tuition	\$ 223,507
5020	Total Operating Revenues	<u>223,507</u>
	Operating Expenses	
6100	Payroll costs	446,158
6200	Purchased and contracted services	287
6300	Supplies and materials	15,391
6400	Claims expense and other operating expenses	17,228
6030	Total Operating Expenses	<u>479,064</u>
1200	Operating Income (Loss)	<u>(255,557)</u>
	Income (Loss) before Transfers	(255,557)
	Transfers	
7915	Transfers in	<u>255,557</u>
1200	Change in Net Assets	
0100	Net Assets - beginning	<u>75</u>
3300	Net Assets - ending	<u>\$ 75</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT*Exhibit D-3***STATEMENT OF CASH FLOWS****PROPRIETARY FUND***Year Ended August 31, 2010*

	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 223,507
Cash payments to suppliers for goods and services	(42,043)
Cash payments to employees	(438,434)
Net Cash Provided by (Used for) Operating Activities	<u>(256,970)</u>
Cash Flows from Non-Capital Financing Activities:	
Advances from other funds	261,105
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>261,105</u>
Net Increase in Cash and Cash Equivalents	4,135
Cash and Cash Equivalents at Beginning of Year	2,445
Cash and Cash Equivalents at End of Year	<u>\$ 6,580</u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	<u>\$ 6,580</u>
Cash and Cash Equivalents per Balance Sheet	<u>\$ 6,580</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (255,557)
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(9,137)
Increase (decrease) in Accrued Wages Payable	7,724
Net Cash Provided by (Used for) Operating Activities	<u>\$ (256,970)</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT*Exhibit E-1***STATEMENT OF FIDUCIARY NET ASSETS***August 31, 2010*

<u>Data Control Codes</u>		<u>810 Scholarship Fund</u>	<u>865 Student Activity Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 199,173	\$ 159,280
	Receivables:		
1250	Interest receivable		84
1260	Due from other Funds	689	
1000	Total Assets	<u>\$ 199,862</u>	<u>\$ 159,364</u>
	Liabilities		
2170	Due to other funds	\$	\$ 13,258
2190	Due to student groups	24,242	146,106
2000	Total Liabilities	<u>24,242</u>	<u>159,364</u>
	Net Assets		
3800	Reserved for scholarships	<u>\$ 175,620</u>	

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2010

Exhibit E-2

	810 Scholarship Fund
Additions	
Gifts and contributions	\$ 40,548
Earnings on investments	1,313
Total Additions	<u>41,861</u>
Deductions	
Scholarships awarded	29,971
Total deductions	<u>29,971</u>
Change in net assets	11,890
Net assets, beginning of year	<u>163,730</u>
Net assets, end of year	<u><u>\$ 175,620</u></u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net 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, 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.

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

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

Note 1 - Summary of Significant Accounting Policies (continued)

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, 2010. 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 uncollectibles. 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 when collected. 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. A portion of fund balance is reserved to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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 \$131,649 as of August 31, 2010.

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. The current requirements for are accounted for in the general fund.

Fund Equity

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

Reserved Fund Balance

In the fund financial statements, governmental funds report fund balance reserves to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The following is a list of fund balance reserves recognized by the District and a description of each:

Investment in Inventory

An account used to indicate that inventory, which will be charged to future periods, does not represent expendable resources.

Retirement of Funded Indebtedness

An account used to indicate the Debt Service assets are restricted for the retirement of bonded debt.

Outstanding Encumbrances

An account used to indicate outstanding encumbrances at year end, which the District intends to honor in the subsequent year.

Note 1 - Summary of Significant Accounting Policies (continued)

Food Service Operations

An account used to indicate that a portion of the Special Revenue Fund assets is reserved for future food service operations.

Designated Fund Balance

The District designated a portion of fund balances to indicate the administration's tentative plans for future use of financial resources.

Construction

An account used to indicate the administration's tentative plans for capital projects.

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.

Note 2 - Deposits and Investments (continued)

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.

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

Investments

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

Note 2 - Deposits and Investments (continued)

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

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

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

A summary of the District’s cash and investments at August 31, 2010, are shown below:

	Cash and Deposits	Money Market Accounts	External Investment Pools	Investment Securities	Total
Governmental Funds					
General Fund	\$ 808,740	\$ 4,014,071	\$ 17,962,293	\$ 7,219,605	\$ 22,785,104
Debt Service Fund	11,754	344,985	12,585,758		20,162,102
Capital Projects Fund	1,725	404,504	13,718,275		14,124,504
Non-major Governmental Funds	538,668	683,776	61,881		1,284,325
Total Governmental Funds	<u>1,360,887</u>	<u>5,447,336</u>	<u>44,328,207</u>	<u>7,219,605</u>	<u>58,356,035</u>
Proprietary Funds	<u>6,580</u>				<u>6,580</u>
Fiduciary Funds	<u>358,453</u>				<u>358,453</u>
Total Cash and Investments	<u>\$ 1,725,920</u>	<u>\$ 5,447,336</u>	<u>\$ 44,328,207</u>	<u>\$ 7,219,605</u>	<u>\$ 58,721,068</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.

Note 2 - Deposits and Investments (continued)

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, 2010:

Investment Type	Fair Market Value	S & P Credit Quality Ratings	Percentage of Investments
Local Government Investment Pools			
Lone Star	\$ 28,236,505	AAA	49.54%
TexStar	16,091,702	AAAm	28.23%
	<u>44,328,207</u>		
Investment Securities			
Federal National Mortgage Assn	4,576,898	AAA	8.03%
Federal Home Loan Mortgage Corp	870,803	AAA	
Federal Home Loan Bank	1,771,904	AAA	
Money Market Mutual Fund	5,447,336	Not Rated	9.56%
	<u>12,666,941</u>		
Total Investments	<u>\$ 56,995,148</u>		

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, 2010, TexSTAR and Lone Star had a weighted average maturity of 49 days and 52 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.

Note 2 - Deposits and Investments (continued)

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 “AAAf/S1” 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.

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

	Fair Market Value	Weighted Average Maturity (Days)
Cash and deposits	\$ 1,481,120	1
Certificates of deposit	244,800	134
Investments:		
Local Government Investment Pools:		
Lone Star	28,236,505	37
TexStar	16,091,702	49
Investment Securities:		
Federal National Mortgage Assn	4,576,898	62
Federal Home Loan Mortgage Corp	870,803	106
Federal Home Loan Bank	1,771,904	168
Money Market Mutual Fund	5,447,336	1
Total Investments	<u>56,995,148</u>	<u>93</u>
Total Cash and Investments	<u>\$ 58,721,068</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.

Note 2 - Deposits and Investments (continued)

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, 2010 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 AA Af/S1 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, 2010, is included in investment earnings as follows:

Investment earnings	\$ 268,932
Net increase (decrease) in investment values	166,003
Total Investment earnings	<u><u>\$ 434,935</u></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 2009-2010 were \$1.04 and \$0.39, respectively, based on an adjusted assessed property valuation of approximately \$3.44 billion resulting in an adjusted tax levy of approximately \$49.3 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, 2010, consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Total</u>
Property Taxes	\$ 5,639,492	\$ 1,703,343	\$	\$ 7,342,835
Due from other governments	38,948		943,972	982,920
Interest	70			70
Other	243,954			243,954
Gross Receivables	5,922,464	1,703,343	943,972	8,569,779
Less allowance for doubtful accounts	(918,328)	(274,305)		(1,192,633)
Net Total Receivables	<u><u>\$ 5,004,136</u></u>	<u><u>\$ 1,429,038</u></u>	<u><u>\$ 943,972</u></u>	<u><u>\$ 7,377,146</u></u>

Note 3 - Receivables (continued)

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:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 3,559,946	\$
Delinquent property taxes receivable (Debt Service Fund)	1,021,687	
Advanced collection of fees		13,980
Grant funds received prior to meeting all eligibility requirements		449,230
	<u>\$ 4,581,633</u>	<u>\$ 463,210</u>

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.

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, 2010, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 975,459	\$ 4,855
Debt Service Fund		47,439
Capital Projects Fund		72,691
Proprietary Funds	2,552	
Fiduciary Funds	689	13,258
Nonmajor Funds	2,304	842,761
	<u>\$ 981,004</u>	<u>\$ 981,004</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, 2010:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Proprietary Fund	\$ 83,694
Nonmajor Governmental Fund (Fund 289)	Child Nutrition	53,437
Nonmajor Governmental Fund (Fund 289)	General Fund	15,398

Note 6 - Capital Assets

Changes in Capital Assets

A summary of changes in general fixed assets, for the year ended August 31, 2010 follows:

	Balance			Balance
	August 31, 2009	Additions	(Retirements) and Transfers	August 31, 2010
Capital assets, not being depreciated:				
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Construction in progress		3,168,604		3,168,604
Total Capital assets, not being depreciated	5,775,196	3,168,604		8,943,800
Capital assets, being depreciated:				
Buildings and improvements	184,615,304	2,823,337		187,438,641
Furniture and equipment	8,401,511	263,662	(7,200)	8,657,973
Total Capital assets, being depreciated	193,016,815	3,086,999	(7,200)	196,096,614
Less accumulated depreciation for:				
Buildings and improvements	(38,458,039)	(3,765,868)		(42,223,907)
Furniture and Equipment	(4,321,911)	(710,313)	7,200	(5,025,024)
Total Accumulated depreciation	(42,779,950)	(4,476,181)	7,200	(47,248,931)
Governmental Capital Assets	\$ 156,012,061	\$ 1,779,422	\$	\$ 157,791,483

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

Function	Depreciation Expense
Instruction	\$ 2,665,185
Instructional resources and media services	114,966
Instructional leadership	38,322
School leadership	114,966
Guidance, counseling and evaluation services	38,322
Health services	38,322
Student transportation	503,337
Food Services	329,929
Extracurricular activities	364,577
General administration	38,322
Plant maintenance and operations	191,611
Data processing services	38,322
	\$ 4,476,181

Note 6 - Capital Assets (continued)

The District has active construction projects as of August 31, 2010. At year end the District's commitments with contractors are as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Remaining Commitment</u>
Renovation - KMS	\$ 3,957,200	\$ 220,083
Renovation - KHS	1,688,184	88,690
Renovation - ME	1,287,900	71,627
Renovation - RE	591,200	32,882
Utility project for Null Middle School	416,843	65,439
Network Operations Center	3,571,000	2,850,383
Detention basin and pump station	1,139,508	738,220
Maintenance & transportation facility	5,988,423	5,907,461
Elementary School #5	14,208,052	13,413,173
	<u>\$ 32,848,310</u>	<u>\$ 23,387,958</u>

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, 2010, follows:

	<u>Balance August 31, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2010</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 160,072,818	\$ 8,199,815	\$ 4,875,000	\$ 163,397,633	\$ 4,479,704
Less deferred amounts:					
For issuance premiums/discounts	842,856	1,009,308	103,339	1,748,825	
Gain or loss on refunding bonds	(42,224)	(1,419,666)	(84,992)	(1,376,898)	
Accreted interest on premium compound interest bonds	387,498	924,154		1,311,652	489,743
	<u>\$ 161,260,948</u>	<u>\$ 8,713,611</u>	<u>\$ 4,893,347</u>	<u>\$ 165,081,212</u>	<u>\$ 4,969,447</u>

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

Bonded long-term debt, at August 31, 2010, 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 2000B	2.30% to 2.55%	2012	\$ 2,150,000
Unlimited Tax School Building Bonds, Series 2001B	0%	2024	8,000,000
Unlimited Tax School Building Bonds, Series 2002	3.40% to 4.00%	2027	1,710,000
Unlimited Tax School Building and Refunding Bonds, Series 2003A	2.00% to 5.25%	2028	14,800,000
Unlimited Tax School Building and Refunding Bonds, Series 2004	4.50% to 5.125%	2029	6,030,000
Unlimited Tax School Building Bonds, Series 2005	3.00% to 4.650%	2020	3,000,000
Unlimited Tax School Building Bonds, Series 2005	3.70% to 6.00%	2035	9,000,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	6,655,000
Unlimited Tax School Building Bonds, Series 2006	4.00% to 5.00%	2036	15,475,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	4.25% to 7.00%	2037	46,922,818
Unlimited Tax School Building Bonds, Series 2008	4.25% to 7.00%	2038	17,125,000
Unlimited Tax Refunding Bonds, Series 2009	2.00% to 3.125%	2019	5,419,817
Unlimited Tax Refunding Bonds, Series 2010	2.00% to 4.50%	2027	18,909,998
Unlimited Qualified School Construction Bonds, Series 2010	5.63%	2027	8,200,000
			<u>\$ 163,397,633</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, 2010 follow:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 4,479,704	\$ 6,906,756	\$ 11,386,460
2012	5,895,112	6,839,048	12,734,160
2013	4,405,000	6,295,886	10,700,886
2014	4,223,156	6,494,845	10,718,001
2015 - 2019	34,549,661	28,517,587	63,067,248
2020 - 2024	34,895,000	21,791,186	56,686,186
2025 - 2029	38,880,000	13,017,048	51,897,048
2030 - 2034	21,620,000	6,074,169	27,694,169
2035 - 2039	14,450,000	1,055,384	15,505,384
	<u>\$ 163,397,633</u>	<u>\$ 96,991,909</u>	<u>\$ 260,389,542</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 2009 and Refunding Series 2010 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	\$ 1,171,262	\$ 732,818	\$ 438,444	\$ 1,390,000	2014-2015
2009	585,604	359,817	225,787	590,000	2011
2010	443,843	179,887	263,956	445,000	2011
2010	448,575	65,111	383,465	455,000	2012
	<u>\$ 2,649,284</u>	<u>\$ 1,337,633</u>	<u>\$ 1,311,652</u>	<u>\$ 2,880,000</u>	

Qualified Zone Academy Bonds

The District is scheduled to make annual deposits into trust accounts for the Qualified Zone Academy Bonds (QZAB), Series 2000B, 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 2012, 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, 2010:

<u>Issue</u>	Restricted Cash and Temporary		<u>Maturity Date</u>
	<u>Investments</u>	<u>Maturity Amount</u>	
Unlimited Tax School Building Bonds, Series 2000B	\$ 1,771,904	\$ 2,150,000	2012
Unlimited Tax School Building Bonds, Series 2001B	4,576,898	8,000,000	2024
Unlimited Tax School Building Bonds, Series 2005	870,803	3,000,000	2020
	<u>\$ 7,219,605</u>	<u>\$ 13,150,000</u>	

Advanced Refunding

The District issued \$25,189,815 of general obligation refunding comprised of \$6,074,517 for Series 2009 and \$19,115,298 for Series 2010, to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$6,075,000 and \$ 19,115,000, respectively, of general obligation bonds. As a result, the refunded bonds have been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$63,784 for Series 2009 and \$1,355,882 for Series 2010. This amount is being netted against the new debt and amortized over the life of the new debt. These advanced refunding were undertaken to reduce total debt service payments over the next ten years for Series 2009 in the amount of \$364,104 and over the next 27 years for Series 2010 in the amount of \$1,364,550.

Prior Year Refunding of Long-Term Debt

In fiscal year 2009, the District disclosed a balance for defeased bonds from Series 2007 refunding in the amount of \$4,975,000. This balance was retired during the 2010 fiscal year.

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

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 45,072,497	\$ 16,705,959	\$	\$	\$ 61,778,456
Investment Income	57,622	354,017	21,689	1,607	434,935
Co-curricular student activities	159,383				159,383
Food Sales				652,786	652,786
Other	128,792		19,478		148,270
	<u>\$ 45,418,294</u>	<u>\$ 17,059,976</u>	<u>\$ 41,167</u>	<u>\$ 654,393</u>	<u>\$ 63,173,830</u>

Note 9 - Retirement Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2010, 2009 and 2008, and a state contribution rate of 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January through August 2010.

Note 9 - Retirement Plan (continued)

Contributions

Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008 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 schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.644% (6.58% for fiscal years 2009 and 2008).

Contributions made by the State, District and staff members for the years ended August 31, 2010, 2009, and 2008, are as follows:

Fiscal Year	Contributions Required and Made (in \$millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2010	\$ 2.042	\$ 0.813	\$ 2.784	\$ 5.639	\$ 43.500
2009	1.950	0.760	2.310	5.020	35.606
2008	1.617	0.703	2.102	4.422	32.643

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

Note 10 - Retiree Health Plan

Plan Description

The Sheldon Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retire Plan provides health care coverage for certain person (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

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

Note 10 - Retiree Health Plan (continued)

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2010, 2009, and 2008. 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, 2010, 2009, and 2008, are as follows:

Fiscal Year	Contributions Required and Made (in \$millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2010	\$ 0.409	\$ 0.269	\$ 0.283	\$ 0.961	\$ 43.500
2009	0.296	0.211	0.231	0.738	35.606
2008	\$ 0.307	\$ 0.199	\$ 0.212	0.718	\$ 32.643

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, 2010, 2009 and 2008, the subsidy payments received by TRS-Care on behalf of the District were \$108,706, \$79,151 and \$71,877, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

Note 11 – Fund Balance

The District reported a portion of fund balance in the General Fund as unreserved, designated for other purposes. The purpose of these designations as of August 31, 2010, are as follows:

Additional State Aid Adjustment	\$ 1,140,000
Wealth Equalization Payments	4,500,000
	<u>\$ 5,640,000</u>

Note 12 - 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 13 - 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.

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Required Supplementary Information

SHELDON INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2010

Data Control Codes		Budgeted Amounts	
		Original	Final
	Revenues		
5700	Local and intermediate sources	\$ 39,131,100	\$ 44,289,570
5800	State program revenues	19,384,230	17,783,113
5900	Federal program revenues	800,000	1,732,350
5020	Total revenues	59,315,330	63,805,033
	Expenditures		
	Current:		
0011	Instruction	32,715,340	32,520,607
0012	Instructional resources and media services	1,053,010	777,811
0013	Curriculum and staff development	366,050	467,711
0021	Instructional leadership	1,669,960	1,840,421
0023	School leadership	3,841,280	3,871,780
0031	Guidance, counseling and evaluation services	1,968,620	1,868,895
0032	Social work services	86,310	86,310
0033	Health services	629,220	564,220
0034	Student transportation	3,540,630	3,292,522
0036	Extracurricular activities	2,167,020	1,715,380
0041	General administration	2,563,370	2,111,370
0051	Facilities maintenance and operations	7,871,526	8,180,026
0052	Security and monitoring services	697,200	697,700
0053	Data processing services	165,010	490,860
0061	Community services	6,250	6,130
	Debt Service:		
0071	Principal on long-term debt	731,772	731,772
	Capital outlay:		
0081	Capital outlay	1,176,344	1,436,344
	Intergovernmental:		
0091	Contracted instructional services between schools		106,515
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	105,000	35,000
0099	Other intergovernmental charges		510,600
6030	Total Expenditures	61,353,912	61,311,974
1100	Excess (deficiency) of revenues over expenditures	(2,038,582)	2,493,059
	Other Financing Sources (Uses)		
7911	Transfers In		
7989	Other operating revenue		39,590
8911	Transfers Out		(266,125)
7080	Total other financing sources and uses		(226,535)
1200	Net change in fund balances	(2,038,582)	2,266,524
0100	Fund balances - beginning	21,906,851	21,906,851
3000	Fund balances - ending	\$ 19,868,269	\$ 24,173,375

Exhibit G-1

Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
\$ 45,418,294	\$ 1,128,724
13,166,171	(4,616,942)
<hr/>	<hr/>
58,584,465	(5,220,568)
32,500,928	19,679
705,334	72,477
404,294	63,417
1,765,493	74,928
3,819,063	52,717
1,805,561	63,334
61,022	25,288
524,858	39,362
3,089,538	202,984
1,533,271	182,109
2,068,437	42,933
7,899,041	280,985
578,030	119,670
411,424	79,436
1,651	4,479
731,772	
1,469,144	(32,800)
102,548	3,967
18,900	16,100
500,555	10,045
<hr/>	<hr/>
59,990,864	1,321,110
(1,406,399)	(3,899,458)
15,398	15,398
230	(39,360)
(255,557)	10,568
<hr/>	<hr/>
(239,929)	(13,394)
(1,646,328)	(3,912,852)
21,906,851	
<hr/>	<hr/>
\$ 20,260,523	\$ (3,912,852)

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, 2010.

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 27, 2009. 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 capital outlay in the amount of \$32,800. In addition, the District's Function 35 expenditures in the Child Nutrition Fund exceeded budgeted amounts by \$97,699.

Other Supplementary Information

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2010

	204	211	224
<u>Data Control Codes</u>	<u>Title IV Safe & Drug Free</u>	<u>ESEA Title I Part A</u>	<u>IDEA B Formula</u>
Assets			
1110 Cash and temporary investments	\$	\$ 2,545	\$
Receivables:			
1240 Receivables from other governments	2,310	290,177	69,891
1260 Due from other funds			
1310 Inventories, at cost			
1000 Total Assets	<u>\$ 2,310</u>	<u>\$ 292,722</u>	<u>\$ 69,891</u>
 Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$	\$ 14,411	\$
2160 Accrued wages payable			
2170 Due to other funds	2,310	278,311	69,891
2200 Accrued expenditures			
2300 Deferred revenues			
2000 Total Liabilities	<u>2,310</u>	<u>292,722</u>	<u>69,891</u>
 Fund Balance:			
Reserved for:			
3410 Investments in inventories			
3450 Food service operations			
Unreserved, Undesignated Reported in:			
3610 Special revenue funds			
3000 Total Fund Balances	<u></u>	<u></u>	<u></u>
4000 Total Liabilities and Fund Balance	<u>\$ 2,310</u>	<u>\$ 292,722</u>	<u>\$ 69,891</u>

225	240	244	255	262	263	265
IDEA B Preschool Grant	Child Nutrition	Vocational Ed -Basic	Title II, Part A	Enhancing Ed Through Technology	Title III, Part A LEP	21st Century Grant
\$ 9,050	\$ 760,227	\$	\$	\$	\$ 190	\$ 7,196
	113,886	12,343		6,481	24,957	11,968
	75,214					
<u>\$ 9,050</u>	<u>\$ 949,327</u>	<u>\$ 12,343</u>	<u>\$</u>	<u>\$ 6,481</u>	<u>\$ 25,147</u>	<u>\$ 19,164</u>
\$	\$ 100,869	\$	\$	\$	\$	\$
	66,367				9,101	
8,693	4,808	12,343		6,481	16,046	19,164
	69					
357						
<u>9,050</u>	<u>172,113</u>	<u>12,343</u>	<u></u>	<u>6,481</u>	<u>25,147</u>	<u>19,164</u>
	75,214					
	702,000					
	777,214					
<u>\$ 9,050</u>	<u>\$ 949,327</u>	<u>\$ 12,343</u>	<u>\$</u>	<u>\$ 6,481</u>	<u>\$ 25,147</u>	<u>\$ 19,164</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2010

<u>Data Control Codes</u>	266	276	279
	Title XIV, State Fiscal Stabilization Fund (ARRA)	Title I - SIP Academy	Title II, Part D - Enhancing Education (ARRA)
Assets			
1110	\$	\$	\$
Receivables:			
1240	174,615	10,000	
1260			
1310			
1000	<u>\$ 174,615</u>	<u>\$ 10,000</u>	<u>\$</u>
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	\$	\$	\$
2160	20,850		
2170	153,765	10,000	
2200			
2300			
2000	<u>174,615</u>	<u>10,000</u>	<u></u>
Fund Balance:			
Reserved for:			
3410			
3450			
Unreserved, Undesignated Reported in:			
3610			
3000	<u></u>	<u></u>	<u></u>
4000	<u>\$ 174,615</u>	<u>\$ 10,000</u>	<u>\$</u>

283	284	285	286	288	289	397
IDEA - Part B, Formula (ARRA)	IDEA - Part B, Preschool (ARRA)	ESEA, Title I, Part A (ARRA)	Title I - SIP Academy (ARRA)	SHARS	Federally Funded Special Revenue Fund	Advanced Placement Incentive
\$	\$	\$	\$	\$ 498,419	\$	\$
52,656	5,939 1,075	40,485	55,186			
<u>\$ 52,656</u>	<u>\$ 7,014</u>	<u>\$ 40,485</u>	<u>\$ 55,186</u>	<u>\$ 498,419</u>	<u>\$</u>	<u>\$</u>
\$ 3,662	\$ 7,014	\$	\$	\$ 4,374	\$	\$
48,994		40,485	55,186	45,172		
				448,873		
<u>52,656</u>	<u>7,014</u>	<u>40,485</u>	<u>55,186</u>	<u>498,419</u>		
<u>\$ 52,656</u>	<u>\$ 7,014</u>	<u>\$ 40,485</u>	<u>\$ 55,186</u>	<u>\$ 498,419</u>	<u>\$</u>	<u>\$</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2010

Data Control Codes	401	404	411
Optional Extended Year	Student Succ. Init-Acc REA	Technology Allotment	
Assets			
1110	Cash and temporary investments	\$	\$ 2,452
	Receivables:		
1240	Receivables from other governments	13,965	30,720
1260	Due from other funds		6,152
1310	Inventories, at cost		1,229
1000	Total Assets	<u>\$ 13,965</u>	<u>\$ 30,720</u>
		<u>\$ 13,965</u>	<u>\$ 9,833</u>
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 1,537
2160	Accrued wages payable		
2170	Due to other funds	13,965	30,720
2200	Accrued expenditures		
2300	Deferred revenues		
2000	Total Liabilities	<u>13,965</u>	<u>30,720</u>
		<u>13,965</u>	<u>1,537</u>
Fund Balance:			
Reserved for:			
3410	Investments in inventories		
3450	Food service operations		
Unreserved, Undesignated Reported in:			
3610	Special revenue funds		8,296
3000	Total Fund Balances		<u>8,296</u>
4000	Total Liabilities and Fund Balance	<u>\$ 13,965</u>	<u>\$ 30,720</u>
		<u>\$ 13,965</u>	<u>\$ 9,833</u>

423	426	427	428	498	
<u>Intensive Reading Instruction</u>	<u>Texas Educator Award Grant</u>	<u>Texas Fitness Now</u>	<u>High School Allotment</u>	<u>Locally Funded Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$	\$	\$ 861	\$ 3,385	\$ 1,284,325
		5,832	16,409		943,972
					2,304
					75,214
<u>\$</u>	<u>\$</u>	<u>\$ 5,832</u>	<u>\$ 17,270</u>	<u>\$ 3,385</u>	<u>\$ 2,305,815</u>
\$	\$	\$	\$ 60	\$	\$ 131,927
		5,832	17,210	3,385	96,318
					842,761
					69
					449,230
		<u>5,832</u>	<u>17,270</u>	<u>3,385</u>	<u>1,520,305</u>
					75,214
					702,000
					8,296
					<u>785,510</u>
<u>\$</u>	<u>\$</u>	<u>\$ 5,832</u>	<u>\$ 17,270</u>	<u>\$ 3,385</u>	<u>\$ 2,305,815</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, 2010

Data Control Codes		204	211	224
		<u>Title IV Safe & Drug Free</u>	<u>ESEA Title I Part A</u>	<u>IDEA B Formula</u>
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	20,206	1,529,717	1,064,575
5020	Total revenues	<u>20,206</u>	<u>1,529,717</u>	<u>1,064,575</u>
	Expenditures			
	Current:			
0011	Instruction	20,206	1,514,629	753,648
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development			21,455
0021	Instructional leadership		1,576	8,289
0023	School leadership			
0031	Guidance, counseling and evaluation services			175,338
0033	Health services			14,859
0035	Food service			
0051	Facilities maintenance and operations			
0061	Community services		13,512	
0081	Capital outlay			90,986
6030	Total Expenditures	<u>20,206</u>	<u>1,529,717</u>	<u>1,064,575</u>
1100	Excess (deficiency) of revenues over expenditures			
	Other Financing Sources (Uses)			
7915	Transfers in			
8911	Transfers out			
7080	Total other financing sources and uses			
1200	Net change in fund balances			
0100	Fund balance - September 1 (beginning)			
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>	<u>\$</u>

225	240	244	255	262	263	265
<u>IDEA B Preschool Grant</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Enhancing Ed Through Technology</u>	<u>Title III, Part A LEP</u>	<u>21st Century Grant</u>
\$	\$ 654,393	\$	\$	\$	\$	\$
	106,058					
35,003	3,172,324	71,305	207,073	12,445	181,281	109,531
<u>35,003</u>	<u>3,932,775</u>	<u>71,305</u>	<u>207,073</u>	<u>12,445</u>	<u>181,281</u>	<u>109,531</u>
35,003		71,305	193,598	12,445	141,808	104,332
			13,475		39,473	
	3,872,699					5,199
<u>35,003</u>	<u>3,872,699</u>	<u>71,305</u>	<u>207,073</u>	<u>12,445</u>	<u>181,281</u>	<u>109,531</u>
	60,076					
	53,437					
	<u>53,437</u>					
	113,513					
	<u>663,701</u>					
<u>\$</u>	<u>\$ 777,214</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

283	284	285	286	288	289	397
IDEA - Part B, Formula (ARRA)	IDEA - Part B, Preschool (ARRA)	ESEA, Title I, Part A (ARRA)	Title I - SIP Academy (ARRA)	SHARS	Federally Funded Special Revenue Fund	Advanced Placement Incentive
\$	\$	\$	\$	\$	\$	\$
666,500	28,064	700,617	150,981	133,069	68,835	5,110
<u>666,500</u>	<u>28,064</u>	<u>700,617</u>	<u>150,981</u>	<u>133,069</u>	<u>68,835</u>	<u>5,110</u>
627,005	28,064	693,395	150,981	133,003		
39,495				66		5,110
		7,222				
<u>666,500</u>	<u>28,064</u>	<u>700,617</u>	<u>150,981</u>	<u>133,069</u>		<u>5,110</u>
					68,835	
					(68,835)	
					(68,835)	
<u>\$</u>	<u>\$</u>	<u>\$</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, 2010

Data Control Codes		401	404	411
		Optional Extended Year	Student Succ. Init- Acc REA	Technology Allotment
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues	30,453	91,063	175,575
5900	Federal program revenues			
5020	Total revenues	<u>30,453</u>	<u>91,063</u>	<u>175,575</u>
	Expenditures			
	Current:			
0011	Instruction	30,453	91,063	182,999
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development			
0021	Instructional leadership			
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0033	Health services			
0035	Food service			
0051	Plant maintenance and operations			
0061	Community services			
0081	Capital outlay			
6030	Total Expenditures	<u>30,453</u>	<u>91,063</u>	<u>182,999</u>
1100	Excess (deficiency) of revenues over expenditures			<u>(7,424)</u>
	Other Financing Sources (Uses)			
7915	Transfers in			
8911	Transfers out			
7080	Total other financing sources and uses			
1200	Net change in fund balances			(7,424)
0100	Fund balance - September 1 (beginning)			<u>15,720</u>
3000	Fund balance - August 31 (ending)	<u>\$</u>	<u>\$</u>	<u>\$ 8,296</u>

423	426	427	428	498	
<u>Intensive Reading Instruction</u>	<u>Texas Educator Award Grant</u>	<u>Texas Fitness Now</u>	<u>High School Allotment</u>	<u>Locally Funded Special Revenue Funds</u>	<u>Total-Other Governmental Funds</u>
\$ 37,203	\$ 180,000	\$ 15,705	\$	\$ 3,385	\$ 654,393
<u>37,203</u>	<u>180,000</u>	<u>15,705</u>	<u></u>	<u>3,385</u>	644,552
					10,026,285
					<u>11,325,230</u>
37,203	180,000	15,705	25,883	3,385	6,752,844
					60,470
					26,565
					102,374
					71,857
					211,039
					14,859
					3,872,699
					5,199
					20,734
					90,986
<u>37,203</u>	<u>180,000</u>	<u>15,705</u>	<u>25,883</u>	<u>3,385</u>	<u>11,229,626</u>
			(25,883)		95,604
					53,437
					(68,835)
					(15,398)
			(25,883)		80,206
			25,883		705,304
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 785,510</u>

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TEA Required Information

SHELDON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2010

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 8/31/2009</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2001 and prior	Various	Various	Various	\$ 279,823
2002	1.457000	0.176000	1,604,024,852	82,812
2003	1.472000	0.161000	1,918,066,708	89,669
2004	1.479500	0.223500	1,749,209,818	133,815
2005	1.500000	0.246000	1,464,060,338	151,180
2006	1.500000	0.250000	1,927,391,387	177,320
2007	1.370000	0.264000	2,167,878,396	189,598
2008	1.040000	0.390000	3,262,365,274	867,343
2009	1.040000	0.390000	3,383,408,252	1,755,412
2010	1.040000	0.390000	3,449,039,580	
1000 Totals				<u>\$ 3,726,972</u>

9000 Portion of Row 1000 for Taxes Paid into Tax
Increment Zone Under Chapter 311, Tax Code (Function 97)

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 8/31/2010</u>
\$	\$ 8,366	\$ 970	\$ (546)	\$ 269,941
	3,536	427	(962)	77,887
	4,166	456	(55)	84,992
	5,126	774	(273)	127,642
	26,748	4,387	9,291	129,336
	46,418	7,736	33,704	156,870
	60,473	11,653	19,722	137,194
	126,556	47,459	18,882	712,210
	246,135	92,301	(179,038)	1,237,938
<u>49,321,266</u>	<u>43,077,244</u>	<u>16,153,966</u>	<u>12,157,229</u>	<u>2,247,285</u>
<u>\$ 49,321,266</u>	<u>\$ 43,604,768</u>	<u>\$ 16,320,129</u>	<u>\$ 12,057,954</u>	<u>5,181,295</u>
				<u>Penalty and interest receivable on taxes</u>
				2,161,540
				<u>Total taxes receivable per Exhibit C-1</u>
				<u>\$ 7,342,835</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
August 31, 2010

Exhibit J-3

Data Control Code	Explanation	Amount
1.	Total General Fund Balance 8-31-10 (Exhibit C-1 object 3000 for the General Fund only)	\$ 20,291,823
2.	Total Reserved Fund Balance 8-31-10 (from Exhibit C-1 - total of object 3400s for the General Fund only)	612,367
3.	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	9,140,000
4.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	14,760,866
5.	Estimate of two months average cash disbursements during the regular school session (9-1-10 to 5-31-11)	5,660,000
6.	Estimate of delayed payments from state sources (58xx) including August payment delays	
7.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
8.	Estimate of delayed payments from federal sources (59xx)	
9.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
10.	Adjustment to meet Board Policy	
11.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10)	<u>30,173,233</u>
12.	Excess or Deficit Undesignated Unreserved General Fund Fund Balance (1-11)	<u>\$ (9,881,410)</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

Exhibit J-4

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION FUND

For the Year Ended August 31, 2010

Data Control Codes		Child Nutrition			Variance with Final Budget Positive (Negative)
		Budget			
		Original	Final	Actual	
	Revenues				
5700	Local, Intermediate, and Out-of-State	\$ 589,000	\$ 589,000	\$ 654,393	\$ 65,393
5800	State Program Revenues	102,000	102,000	106,058	4,058
5900	Federal Program Revenues	2,812,370	2,812,370	3,172,324	359,954
5020	Total Revenues	<u>3,503,370</u>	<u>3,503,370</u>	<u>3,932,775</u>	<u>429,405</u>
	Expenditures				
	Current:				
0035	Food Services	3,609,000	3,775,000	3,872,699	(97,699)
6030	Total Expenditures	<u>3,609,000</u>	<u>3,775,000</u>	<u>3,872,699</u>	<u>(97,699)</u>
1100	Excess (Deficiency) Revenues Over Expenditures	(105,630)	(271,630)	60,076	331,706
	Other Financing Sources (Uses)				
7910	Non Revenue		271,630		(271,630)
7915	Transfers In			53,437	53,437
7080	Total other financing sources (uses)		<u>271,630</u>	<u>53,437</u>	<u>(218,193)</u>
1200	Increase (Decrease) in Fund Balance	(105,630)		113,513	113,513
0100	Fund Balance - beginning	<u>663,700</u>	<u>663,700</u>	<u>663,700</u>	
3000	Fund Balance - ending	<u>\$ 558,070</u>	<u>\$ 663,700</u>	<u>\$ 777,213</u>	<u>\$ 113,513</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2010

Data Control Codes	Debt Service Fund				
	Budget			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 12,638,150	\$ 16,466,600	\$ 17,059,976	\$ 593,376
5020	Total Revenues	<u>12,638,150</u>	<u>16,466,600</u>	<u>17,059,976</u>	<u>593,376</u>
Expenditures					
Current:					
Debt Service:					
0071	Principal and Interest on Long-term Debt	11,276,027	11,424,170	10,636,539	787,631
0073	Bond Issuance Costs and Fees			448,085	(448,085)
6030	Total Expenditures	<u>11,276,027</u>	<u>11,424,170</u>	<u>11,084,624</u>	<u>339,546</u>
1100	Excess (Deficiency) Revenues Over Expenditures	1,362,123	5,042,430	5,975,352	932,922
Other Financing Sources (Uses)					
7901	Refunding bonds issued		25,189,824	25,189,815	(9)
7916	Preimum		1,873,316	1,873,316	
8949	Other Uses	(1,362,123)	(32,105,570)	(26,609,666)	5,495,904
7080	Total other financing sources (uses)	<u>(1,362,123)</u>	<u>(5,042,430)</u>	<u>453,465</u>	<u>5,495,895</u>
1200	Increase (Decrease) in Fund Balance			6,428,817	6,428,817
0100	Fund Balance - beginning	<u>14,093,195</u>	<u>14,093,195</u>	<u>14,093,195</u>	
3000	Fund Balance - ending	<u>\$ 14,093,195</u>	<u>\$ 14,093,195</u>	<u>\$ 20,522,012</u>	<u>\$ 6,428,817</u>

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Federal Awards Section

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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited 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, 2010 which collectively comprise the District's basic financial statements and have issued our report thereon dated January 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. These deficiencies are identified as items #10-01 and #10-02. A *significant deficiency*, is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

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

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 "Nell Larson, AC". The signature is written in a cursive, flowing style.

Texas City, Texas
January 18, 2011

**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, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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, 2010.

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

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

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, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of 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.

A handwritten signature in black ink that reads "Nell Larson, AC". The signature is written in a cursive, flowing style.

Texas City, Texas
January 18, 2011

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2010

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?	Yes, Items #10-01 and #10-02
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

ESEA Title I Cluster:	
ESEA Title I, Improving Basic Programs	84.010A
ESEA Title I, Part A – ARRA	84.389A
Special Education Cluster:	
IDEA Part B – Special Education Formula	84.027A
IDEA Part B – Special Education Preschool	84.173A
IDEA Part B – Formula – ARRA	84.391A
IDEA Part B – Preschool - ARRA	84.392A
Title XIV, State Fiscal Stabilization Fund (ARRA)	84.394A
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, 2010

II. Financial Statement Findings

Significant Deficiencies

Finding #10-01 Purchasing

Criteria: Approved purchase orders are required for all purchases of goods and services by District personnel. In addition, adequate documentation should be maintained for contracts for goods or services in excess of \$50,000.

Condition: District personnel are creating purchase orders subsequent to the purchase of goods or services. There was a lack of documentation for certain goods that were competitively procured and other contracts.

Context: During our test of expenditures, there were numerous purchases where the purchase orders were created after the date of purchase of goods or services. In addition, the results of our procurement exam indicated that District lacked adequate documentation for certain contracts.

Effect: Circumvention of established purchasing procedures and controls allows the possibility for unauthorized purchases to be made and go undetected in the normal course of operations. Purchases could be made for which there is no available budget. If the Business Office has no knowledge of the purchase prior to receiving an invoice from the vendor, then liabilities could exist and encumbrances could not get recorded. Circumventing the purchase order process could also cause the District to be in non-compliance with State procurement laws. In addition, without proper documentation for certain contracts in excess of \$50,000, we were unable to determine if the District followed the appropriate State procurement laws.

Cause: Lack of controls over the purchasing function. The contracts in excess of \$50,000 were handled by the current purchasing director's predecessor.

Recommendation District personnel should follow established purchasing procedures, which require purchases of goods and services to be approved by a budget manager at the requisition level, and a purchase order to be generated and approved by the CFO. The Director of purchasing should communicate with District personnel to ensure that they are aware of the established purchasing procedures per the District's purchasing policy. In addition, the District should maintain all documentation for contracts in excess of \$50,000 regardless if the contract was entered into using the competitive procurement process.

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2010

Finding #10-02 Grant Tracking

Criteria: The District should have a centralized system where the Business Office is made aware of all grants for which the District applies, receives and expends funds. This provides reasonable assurance that all federal, state and local grants are properly identified in the general ledger.

Condition: The District does not have a centralized system for all grant activity. At times, the only method to identify new grants is when the Business Office enters cash receipts or reviews invoices prior to disbursement. As such, federal grants are not always properly classified as federal, state or local until much research is done by the Business Office.

Context: This was noted during our understanding of internal controls over grants.

Effect: The District could potentially omit grant revenues and expenditures.

Cause: There is no formal procedure to ensure that all grants awarded and received from various grantors are recorded by the District.

Recommendation All grants applied for, grant funds received and expended should be managed by the Business Office. A concerted effort should be made among all District departments to implement this process.

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2010

III. Federal Awards Findings and Questioned Costs

None noted.

IV. Status Of Prior Year Findings

Finding #09-01 Approved Purchase Order	Corrective Action Taken: This finding is reoccurring. See Finding #10-01.
Finding #09-02 Segregation of Duties – Human Resources and Payroll	Corrective Action Taken: Resolved. Procedures are in place to compare approved salary and payments made on each pay period to alleviate possible errors with payroll data entry and changes to the payroll database.
Finding #09-03 Approval of journal entries	Corrective Action Taken: Resolved. Additional procedures were developed to review journal entries.
Finding #09-04 Segregation of duties – Accounts payable and purchasing	Correction Action Taken: Resolved: The District added a purchasing agent during fiscal year 2010. As such, vendor maintenance is separated from accounts payable functions to accommodate proper segregation of duties.

V. Corrective Action

#10-01 Purchasing Response:

We will follow up with the departments or personnel not following the procurement procedures of the district. Additional training will be scheduled as needed to educate personnel involved in the procurement process.

Responsible party: Chief Financial Officer

Estimated completion date: March 2011

#10-02 Grant Tracking Response:

Procedures will be implemented to report all grant fund documents to a central location for better management and accounting of all grants received by the District. The new procedures will be communicated with all personnel involved with the grant application/approval for the District.

Responsible party: Chief Financial Officer

Estimated completion date: March 2011

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2010

Exhibit K-1

(2A)	(1)	(2)	(3)
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund Number	Federal CFDA Number Expenditures
U.S. Department of Education			
Passed Through Texas Education Agency:			
10691001101924	<i>Title IV, Part A - Safe and Drug Free Schools</i>	204	84.186A \$ 20,206
10610101101924000	<i>ESEA Title I, Improving Basic Programs *</i>	211	84.010A 1,529,717
10551001101924	<i>ESEA Title I, Part A - ARRA*</i>	285	84.389A 700,617
10551004101924001	<i>Title I - SIP - ARRA*</i>	286	84.389A 150,981
106600011019246600	<i>IDEA Part B - Special Education Formula**</i>	224	84.027A 1,064,575
106610011019246610	<i>IDEA Part B - Special Education Preschool**</i>	225	84.173A 17,780
10554001101924	<i>IDEA-B Formula - ARRA - LEA**</i>	283	84.391A 666,500
10555001101924	<i>IDEA-B Preschool-ARRA-LEA**</i>	284	84.392A 28,064
10420006101924	<i>Title I, Part C - Carl D. Perkins, Career and Technology</i>	244	84.048A 71,305
10694501101924	<i>ESEA Title II, Part A - Teacher/Principal Training</i>	255	84.367A 207,073
10630001101924	<i>Title II, Part D - Enhancing Education through Technology ***</i>	262	84.318X 12,445
10553001101924	<i>Title II, Part D - Enhancing Education through Technology - ARRA***</i>	279	84.386A 12,519
10671001101924	<i>ESEA Title III, Part A - English Language Acquisition</i>	263	84.365A 181,281
10557001101924	<i>Title XIV, State Fiscal Stabilization Fund</i>	266	84.394A 1,829,515
10610701101924001	<i>Title I, SIP Academy</i>	276	84.377A 32,725
69550902	<i>Summer School LEP</i>	289	84.369A 15,398
Total passed through Texas Education Agency			6,540,701
Passed Through Harris County Department of Education:			
S287B010187	<i>21 Century Community Learning Centers</i>	265	84.287C 109,531
Passed Through Region IV Education Service Center:			
1066102271204	<i>IDEA - Part B, Preschool LRE**</i>	225	84.173A 17,223
Total U.S. Department of Education			6,667,455
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture:			
<i>Child Nutrition Cluster:</i>			
<i>Non Cash Assistance (Commodities)</i>			
101924	<i>National School Lunch Program****</i>	240	10.555 204,315
Passed Through State Department of Education:			
<i>Cash Assistance:</i>			
71300901	<i>National School Lunch Program****</i>	240	10.555 2,057,308
71400901	<i>National School Breakfast Program****</i>	240	10.553 910,701
Total U.S. Department of Agriculture			3,172,324
U.S. Department of Homeland Security			
Passed Through Texas Department of Public Safety			
1791-DR-TX	<i>Public Assistance Grant - FEMA Aid</i>	289	97.036 53,437
Total U.S. Department of Homeland Security			53,437
Total Expenditures of Federal Awards			\$ 9,893,216

*Title I Cluster
**Special Education Cluster
***Title II, Part D 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)	\$ 10,026,285
SHARS	(133,069)
	<u>\$ 9,893,216</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
August 31, 2010

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>\$ 1,311,652</u>

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