

**SHELDON INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**For The Year Ended August 31, 2014**



# SHELDON INDEPENDENT SCHOOL DISTRICT

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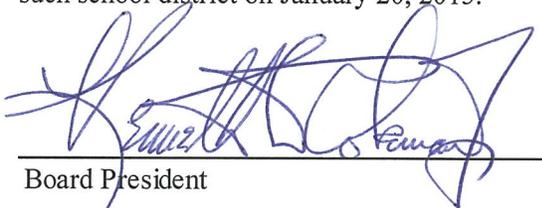
**CERTIFICATE OF THE BOARD**

Sheldon Independent School District  
Name of School District

Harris  
County

101-924  
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2014, at a meeting of the board of trustees of such school district on January 20, 2015.

  
Board President

  
Board Secretary



## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

To the Board of Trustees  
Sheldon Independent School District

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 14 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

To the Board of Trustees  
Sheldon Independent School District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance as the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Houston, Texas  
January 20, 2015

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

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## **SHELDON INDEPENDENT SCHOOL DISTRICT**

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

As management of the Sheldon Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2014.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$65,184,918 (*net position*). Of this amount, \$22,104,923 (unrestricted net position) may be used to meet the District's ongoing obligations to students and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$51,584,743 a decrease of \$6,492,139 in comparison with the prior year. The change in governmental fund balances was primarily due to the decrease in the debt service fund balance of \$672,018 and the decrease in the capital projects fund balance of \$5,910,731.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$19,389,702 or 26 percent of total general fund expenditures.
- The District's total bonded debt increased by \$3,551,676 (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 Position* presents information on all of the District's assets, deferred outflows of resources, and liabilities with the difference between them reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

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

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

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

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

**Fund financial statements**

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

**Governmental funds**

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects funds, all of which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund.

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

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

**Proprietary fund**

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

**Fiduciary fund**

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

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

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 through 50 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 52 through 54 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 56 through 63 of this report.

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

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$65,184,918 at the close of the most recent fiscal year.

The District's investment in capital assets (e.g., capitalized bond and land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to \$13,428,672. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Sheldon Independent School District's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 65,955,278	\$ 67,510,699	\$ 7,303	\$ 29,160	\$ 65,962,581	\$ 67,539,859
Capital assets	186,523,177	179,090,986			186,523,177	179,090,986
<b>Total Assets</b>	<b>252,478,455</b>	<b>246,601,685</b>	<b>7,303</b>	<b>29,160</b>	<b>252,485,758</b>	<b>246,630,845</b>
<b>Deferred Outflows of Resources</b>						
Deferred charge on refunding	1,584,138	1,630,972			1,584,138	1,630,972
<b>Total Deferred Outflows of Resources</b>	<b>1,584,138</b>	<b>1,630,972</b>			<b>1,584,138</b>	<b>1,630,972</b>
Current liabilities	12,885,148	7,737,380	7,303	6,056	12,892,451	7,743,436
Long term liabilities	175,992,527	179,611,286			175,992,527	179,611,286
<b>Total Liabilities</b>	<b>188,877,675</b>	<b>187,348,666</b>	<b>7,303</b>	<b>6,056</b>	<b>188,884,978</b>	<b>187,354,722</b>
<b>Net Position</b>						
Net investment in capital assets	13,428,672	8,826,828			13,428,672	8,826,828
Restricted	29,651,323	30,336,839			29,651,323	30,336,839
Unrestricted	22,104,923	21,720,324		23,104	22,104,923	21,743,428
<b>Total Net Position</b>	<b>\$ 65,184,918</b>	<b>\$ 60,883,991</b>	<b>\$</b>	<b>\$ 23,104</b>	<b>\$ 65,184,918</b>	<b>\$ 60,907,095</b>

Net position of \$29,651,323 is restricted for state and federal programs, debt service and local grants. The remaining balance of *unrestricted net position* \$22,104,923 may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position. The District's net position increased by \$4,277,823 during the current fiscal year primarily due to increases in property tax revenues as the result of increased property values.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Program Revenues</b>						
Charges for services	\$ 796,876	\$ 824,622	\$ 316,676	\$ 337,844	\$ 1,113,552	\$ 1,162,466
Operating grants	13,648,891	12,063,681			13,648,891	12,063,681
<b>General Revenues</b>						
Property taxes	69,607,257	61,832,542			69,607,257	61,832,542
State aid	11,741,565	13,724,164			11,741,565	13,724,164
Interest earnings	447,842	422,747			447,842	422,747
Other	395,506	520,329			395,506	520,329
<b>Total Revenues</b>	<u>96,637,937</u>	<u>89,388,085</u>	<u>316,676</u>	<u>337,844</u>	<u>96,954,613</u>	<u>89,725,929</u>
<b>Expenses</b>						
Instruction	47,809,752	43,224,647			47,809,752	43,224,647
Instructional resources and media services	792,161	856,003			792,161	856,003
Curriculum and staff development	121,381	102,600			121,381	102,600
Instructional leadership	2,668,731	2,265,264			2,668,731	2,265,264
School leadership	4,760,337	4,421,074			4,760,337	4,421,074
Guidance, counseling, and evaluation services	2,032,504	1,956,672			2,032,504	1,956,672
Social work services	34,280	33,195			34,280	33,195
Health services	612,554	544,887			612,554	544,887
Student transportation	4,232,024	3,982,825			4,232,024	3,982,825
Food service	5,491,512	5,056,702			5,491,512	5,056,702
Extracurricular activities	2,051,967	1,970,374			2,051,967	1,970,374
General administration	2,015,019	1,937,795			2,015,019	1,937,795
Facilities maintenance and operations	8,370,945	8,125,727			8,370,945	8,125,727
Security and monitoring services	824,543	724,472			824,543	724,472
Data processing services	932,354	709,494			932,354	709,494
Community services	21,756	26,258	528,972	489,077	550,728	515,335
Interest on long-term debt	6,641,524	6,516,705			6,641,524	6,516,705
Bond issuance costs and fees	127,501	474,625			127,501	474,625
Facilities repairs and maintenance	525,242	744,805			525,242	744,805
Contracted instructional services between schools	1,560,236	352,969			1,560,236	352,969
Payments to Juvenile Justice Alternative Education Programs	4,184	2,356			4,184	2,356
Other intergovernmental charges	517,311	490,224			517,311	490,224
<b>Total Expenses</b>	<u>92,147,818</u>	<u>84,519,673</u>	<u>528,972</u>	<u>489,077</u>	<u>92,676,790</u>	<u>85,008,750</u>
Excess (deficiency) before special items and transfers	4,490,119	4,868,412	(212,296)	(151,233)	4,277,823	4,717,179
Special items		54,799				54,799
Transfers	(189,192)	(151,233)	189,192	151,233		
Increase (Decrease) in Net Position	4,300,927	4,771,978	(23,104)		4,277,823	4,771,978
<b>Beginning net position</b>	<u>60,883,991</u>	<u>56,112,013</u>	<u>23,104</u>	<u>23,104</u>	<u>60,907,095</u>	<u>56,135,117</u>
<b>Ending net position</b>	<u>\$ 65,184,918</u>	<u>\$ 60,883,991</u>	<u>\$</u>	<u>\$ 23,104</u>	<u>\$ 65,184,918</u>	<u>\$ 60,907,095</u>

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

**Governmental activities**

Governmental activities increased the District's net position by \$4,300,927. Key elements of this increase are as follows:

Revenues are generated primarily from three sources. State Aid Formula Grant, operating grants and contributions. Grants and contributions (\$25,390,456) represent 26 percent of total revenues and property taxes (\$69,607,257) represent 72 percent of total revenues. The remaining \$1,640,224 is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$47,809,752), which represents 52 percent of total expenses. Plant maintenance and operations (\$8,370,945) represents 9 percent of total expenses. Interest on long-term debt (\$6,641,524) represents 7 percent of total expenses of the District. The remaining individual functional categories of expenses are each less than 6 percent of total expenses.

**Financial Analysis of the Government's Funds**

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

**Governmental funds**

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$51,584,743, a decrease of \$6,492,139 in comparison with the prior year. The change in governmental fund balances was primarily due to the decrease in the debt service fund balance combined with the decrease in the capital projects fund balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$19,389,702, while total fund balance reached \$21,732,111. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

The fund balance of the District's general fund increased by \$33,078 during the current fiscal year primarily due to additional property tax revenues as a result of an increase in property values.

The debt service fund has a total fund balance of \$28,305,452, all of which is restricted for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$672,018 was primarily attributable to a decrease in the I&S rate, combined with fees related to the issuance of new bonds and refunding of previously issued bonds.

The capital projects fund has a total fund balance of \$318,481, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$5,910,731 was primarily due to continued construction of the District's new competition gym.

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

**General Fund Budgetary Highlights**

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

	<u>Estimated Revenues</u>
Original	\$ 73,266,450
Final	<u>77,622,052</u>
<b>Total estimated revenues increase</b>	<b><u><u>\$ 4,355,602</u></u></b>
	<u>Appropriations</u>
Original	\$ 74,078,690
Final	<u>76,899,968</u>
<b>Total appropriations increase</b>	<b><u><u>\$ 2,821,278</u></u></b>

The review of the final amended budget versus actual for the general fund reflected that revenues and expenditures were less than budgetary estimates.

**Capital Assets and Long-term Liabilities**

**Capital assets**

The District's investment in capital assets for its governmental type activities as of August 31, 2014, amounts to \$186,523,177 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 4 percent.

	<u>Balance September 1, 2013</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance August 31, 2014</u>
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Buildings and improvements	224,049,664	2,226,167		226,275,831
Furniture and equipment	10,123,794	1,171,413	(81,872)	11,213,335
Construction in progress	972,352	9,437,858		10,410,210
	<u>240,921,006</u>	<u>12,835,438</u>	<u>(81,872)</u>	<u>253,674,572</u>
Less accumulated depreciation for:				
Buildings and improvements	(55,038,973)	(4,676,763)		(59,715,736)
Furniture and Equipment	(6,791,047)	(726,484)	81,872	(7,435,659)
	<u>(61,830,020)</u>	<u>(5,403,247)</u>	<u>81,872</u>	<u>(67,151,395)</u>
Governmental Capital Assets	<u><u>\$ 179,090,986</u></u>	<u><u>\$ 7,432,191</u></u>	<u><u>\$</u></u>	<u><u>\$ 186,523,177</u></u>

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

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

**Long-term liabilities**

At the end of the current fiscal year, the District had \$175,316,610 in bonded debt outstanding, an decrease of \$3,551,676 over the previous year. The District's bonds are sold with an "Aaa" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program. The underlying rating of the bonds from Moody's Investors Service is "Aa2" for general obligation debt.

Changes to bonded debt, for the year ended August 31, 2014, are as follows:

	<b>Balance August 31, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance August 31, 2014</b>
General obligation bonds	\$ 174,588,248	\$ 9,750,000	\$ (12,943,590)	\$ 171,394,658
Amounts for issuance premiums	3,536,094	228,896	(162,524)	3,602,466
Accreted interest on premium compound interest bonds	743,944	41,952	(466,410)	319,486
	<u>\$ 178,868,286</u>	<u>\$ 10,020,848</u>	<u>\$ (13,572,524)</u>	<u>\$ 175,316,610</u>

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

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

- Peak enrollment totaled 7,800 students, which is a 3 percent increase from the prior year. Enrollment growth is projected to continue at this rate.
- District staff totals 1,147 employees, which primarily consists of 537 teachers, 229 paraprofessionals and 244 auxiliary staff.
- The District maintains 10 campuses for instruction.
- The economic growth in the area will help to bring additional taxable property value for the District.
- The total property tax will remain at \$1.43 per \$100 of assessed value for 2014-15.

All of these factors were considered in preparing the District's budget for the 2015 fiscal year.

**Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

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**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**August 31, 2014**

*Exhibit A-1*

<b>Data Control Codes</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
1110	Cash and Cash Equivalents	\$ 50,768,153	\$ 50,768,153
1220	Delinquent Property Taxes Receivables, Net	2,148,125	2,148,125
1240	Due from Other Governments	1,213,661	1,213,661
1260	Internal Balances	(7,303)	7,303
1267	Due from Fiduciary Funds	13,019	13,019
1290	Other Receivables	378,026	378,026
1300	Inventories	441,133	441,133
<b>Capital Assets, not subject to depreciation:</b>			
1510	Land	5,775,196	5,775,196
1580	Construction in Progress	10,410,210	10,410,210
<b>Capital Assets, net of accumulated depreciation:</b>			
1520	Buildings and improvements, net	166,560,095	166,560,095
1530	Furniture and equipment, net	3,777,676	3,777,676
1810	Restricted Cash and Temporary Investments	11,000,464	11,000,464
<b>1000</b>	<b>Total Assets</b>	<u>252,478,455</u>	<u>252,485,758</u>
<b>Deferred Outflows of Resources</b>			
1700	Deferred charge on refunding	1,584,138	1,584,138
	<b>Total Deferred Outflows of Resources</b>	<u>1,584,138</u>	<u>1,584,138</u>
<b>Liabilities</b>			
2110	Accounts Payable	2,798,580	523 2,799,103
2140	Interest Payable	274,412	274,412
2150	Payroll Deductions and Withholdings	431,604	431,604
2160	Accrued Wages Payable	2,427,906	6,780 2,434,686
2180	Due to Other Governments	6,852,518	6,852,518
2300	Unearned Revenue	100,128	100,128
<b>Noncurrent Liabilities:</b>			
2501	Due within one year	13,531,517	13,531,517
2502	Due in more than one year	162,461,010	162,461,010
<b>2000</b>	<b>Total Liabilities</b>	<u>188,877,675</u>	<u>188,884,978</u>
<b>Net Position</b>			
3200	Net investment in capital assets	13,428,672	13,428,672
<b>Restricted for:</b>			
3820	Federal and state programs	1,228,699	1,228,699
3850	Debt service	28,422,624	28,422,624
3900	<b>Unrestricted</b>	<u>22,104,923</u>	<u>22,104,923</u>
<b>3000</b>	<b>Total net position</b>	<u>\$ 65,184,918</u>	<u>\$ 65,184,918</u>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

For the Year Ended August 31, 2014

Data Control Codes	Functions/Programs	Program Revenue		
		Expenses	Charges for Services	Operating Grants and Contributions
<b>Governmental activities:</b>				
11	Instruction	\$ 47,809,752	\$ 13,742	\$ 6,282,497
	Instructional resources and media services	792,161		34,438
13	Curriculum and staff development	121,381		
21	Instructional leadership	2,668,731		100,609
23	School leadership	4,760,337		232,997
	Guidance, counseling, and evaluation services	2,032,504		450,531
32	Social work services	34,280		
33	Health services	612,554		1,080,569
34	Student transportation	4,232,024		151,287
35	Food service	5,491,512	682,816	4,520,228
36	Extracurricular activities	2,051,967	100,318	38,600
41	General administration	2,015,019		82,604
51	Facilities maintenance and operations	8,370,945		211,588
52	Security and monitoring services	824,543		
53	Data processing services	932,354		17,244
61	Community services	21,756		17,126
72	Interest on long-term debt	6,641,524		428,573
73	Bond issuance costs and fees	127,501		
81	Facilities repairs and maintenance	525,242		
	Contracted instructional services between schools	1,560,236		
	Payments to Juvenile Justice			
95	Alternative Education Programs	4,184		
99	Other intergovernmental charges	517,311		
<b>TG</b>	<b>Total governmental activities</b>	<u>92,147,818</u>	<u>796,876</u>	<u>13,648,891</u>
<b>Business-type activities</b>				
01	Early Learning Center - Daycare	528,972	316,676	
<b>TB</b>	<b>Total business-type activities</b>	<u>528,972</u>	<u>316,676</u>	
<b>TP</b>	<b>Total primary government</b>	<u>\$ 92,676,790</u>	<u>\$ 1,113,552</u>	<u>\$ 13,648,891</u>

**Data Control Codes**

<b>General revenues:</b>	
Taxes:	
<b>MT</b>	Property taxes, levied for general purposes
<b>DT</b>	Property taxes, levied for debt service
<b>SF</b>	State-aid formula grants
<b>IE</b>	Investment earnings
<b>MI</b>	Miscellaneous
<b>FR</b>	Transfers
<b>TR</b>	<b>Total general revenues, special items, and transfers</b>
<b>CN</b>	Change in net position
<b>NB</b>	<b>Net position - beginning</b>
<b>NE</b>	<b>Net position - ending</b>

See Notes to the Financial Statements

*Exhibit B-1*

**Net (Expense) Revenue and Changes in Net Position**  
**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (41,513,513)	\$	\$ (41,513,513)
(757,723)		(757,723)
(121,381)		(121,381)
(2,568,122)		(2,568,122)
(4,527,340)		(4,527,340)
(1,581,973)		(1,581,973)
(34,280)		(34,280)
468,015		468,015
(4,080,737)		(4,080,737)
(288,468)		(288,468)
(1,913,049)		(1,913,049)
(1,932,415)		(1,932,415)
(8,159,357)		(8,159,357)
(824,543)		(824,543)
(915,110)		(915,110)
(4,630)		(4,630)
(6,212,951)		(6,212,951)
(127,501)		(127,501)
(525,242)		(525,242)
(1,560,236)		(1,560,236)
(4,184)		(4,184)
(517,311)		(517,311)
<u>(77,702,051)</u>		<u>(77,702,051)</u>
	<u>(212,296)</u>	<u>(212,296)</u>
	<u>(212,296)</u>	<u>(212,296)</u>
<u>(77,702,051)</u>	<u>(212,296)</u>	<u>(77,914,347)</u>
56,924,489		56,924,489
12,682,768		12,682,768
11,741,565		11,741,565
447,842		447,842
395,506		395,506
(189,192)	189,192	
<u>82,002,978</u>	<u>189,192</u>	<u>82,192,170</u>
4,300,927	(23,104)	4,277,823
<u>60,883,991</u>	<u>23,104</u>	<u>60,907,095</u>
<u>\$ 65,184,918</u>	<u>\$</u>	<u>\$ 65,184,918</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

August 31, 2014

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>Assets</b>				
1110	Cash and temporary investments	\$ 30,679,391	\$ 17,035,044	\$ 1,762,540
	Receivables:			
1220	Delinquent property taxes receivables	2,481,326	648,211	
1230	Allowance for uncollectible taxes (credit)	(801,255)	(180,157)	
1240	Receivables from other governments	965,533		
1260	Due from other funds	159,935	190,955	
1290	Other receivables	375,427	2,519	
1300	Inventories	333,041		
1810	Restricted cash and temporary investments		11,000,464	
<b>1000</b>	<b>Total Assets</b>	<b>\$ 34,193,398</b>	<b>\$ 28,697,036</b>	<b>\$ 1,762,540</b>
<b>Liabilities, Deferred Inflows, and Fund Balance</b>				
<b>Liabilities:</b>				
2110	Accounts payable	\$ 1,163,160	\$	\$ 1,444,059
2150	Payroll deduction and withholdings payable	431,604		
2160	Accrued wages payable	2,356,533		
2170	Due to other funds	257,985		
2180	Payable to other governments	6,852,518		
2300	Unearned revenues	31,272		
<b>2000</b>	<b>Total Liabilities</b>	<b>11,093,072</b>		<b>1,444,059</b>
<b>Deferred Inflows of Resources</b>				
2600	Unavailable revenues - property taxes	1,368,215	391,584	
	<b>Total Deferred Inflows of Resources</b>	<b>1,368,215</b>	<b>391,584</b>	
<b>Fund Balance:</b>				
<b>Nonspendable:</b>				
3410	Inventories	333,041		
<b>Restricted:</b>				
3450	Grant Funds	39,368		
3470	Capital acquisitions			318,481
3480	Debt service		28,305,452	
<b>Assigned:</b>				
3590	Other purposes	1,970,000		
3600	<b>Unassigned</b>	<b>19,389,702</b>		
<b>3000</b>	<b>Total fund balances</b>	<b>21,732,111</b>	<b>28,305,452</b>	<b>318,481</b>
<b>4000</b>	<b>Total Liabilities/Total Liabilities, Deferred Inflows, and Fund Balances and Fund Balances</b>	<b>\$ 34,193,398</b>	<b>\$ 28,697,036</b>	<b>\$ 1,762,540</b>

See Notes to the Financial Statements.

*Exhibit C-1*

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,291,178	\$ 50,768,153
	3,129,537
	(981,412)
248,128	1,213,661
29,507	380,397
80	378,026
108,092	441,133
	11,000,464
<u>\$ 1,676,985</u>	<u>\$ 66,329,959</u>

\$ 191,361	\$ 2,798,580
	431,604
71,373	2,427,906
116,696	374,681
	6,852,518
68,856	100,128
<u>448,286</u>	<u>12,985,417</u>

	<u>1,759,799</u>
	<u>1,759,799</u>

108,092	441,133
1,120,607	1,159,975
	318,481
	28,305,452
	1,970,000
	19,389,702
<u>1,228,699</u>	<u>51,584,743</u>
<u>\$ 1,676,985</u>	<u>\$ 66,329,959</u>

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**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO**  
**STATEMENT OF NET POSITION**  
**August 31, 2014**

*Exhibit C-2*

<b>Data Control Codes</b>		
	<b>Total fund balance, governmental funds</b>	\$ 51,584,743
	Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:	
<b>1</b>	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	186,523,177
<b>2</b>	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	1,759,799
<b>3</b>	Deferred charge on refunding	1,584,138
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
<b>4</b>	General obligation bonds	(171,394,658)
<b>5</b>	Premiums on issuance	(3,602,466)
<b>6</b>	Accreted interest on premium compound interest bonds	(319,486)
<b>7</b>	Accrued compensated absences	(675,917)
<b>8</b>	Accrued interest payable	(274,412)
<b>19</b>	<b>Total net position - governmental activities</b>	<u>\$ 65,184,918</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, 2014*

<b>Data Control Codes</b>	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>Revenues</b>			
5700 Local, intermediate, and out-of-state	\$ 57,477,086	\$ 13,171,703	\$ 2,923
5800 State program revenues	14,609,171		
5900 Federal program revenues	1,504,285		
<b>5020 Total revenues</b>	<u>73,590,542</u>	<u>13,171,703</u>	<u>2,923</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011 Instruction	40,174,202		
0012 Instructional resources and media services	649,358		
0013 Curriculum and staff development	121,381		
0021 Instructional leadership	2,619,836		
0023 School leadership	4,621,958		
0031 Guidance, counseling and evaluation services	1,643,562		
0032 Social work services	34,280		
0033 Health services	565,365		
0034 Student transportation	3,667,306		
0035 Food services			
0036 Extracurricular activities	1,608,522		
0041 General administration	1,968,854		
0051 Facilities maintenance and operations	8,187,490		
0052 Security and monitoring services	824,543		
0053 Data processing services	912,523		
0061 Community services	5,170		
<b>Debt service:</b>			
0071 Principal on long-term debt	545,000	4,198,590	
0072 Interest on long-term debt	199,078	6,919,662	
0073 Bond issuance costs and fees		44,947	82,554
<b>Capital outlay:</b>			
0081 Facilities acquisition and construction	2,992,899		10,213,654
<b>Intergovernmental:</b>			
0091 Contracted instructional services between schools	1,560,236		
0095 Payments to Juvenile Justice Alt. Ed. Prgm.	4,184		
0099 Other intergovernmental charges	517,311		
<b>6030 Total Expenditures</b>	<u>73,423,058</u>	<u>11,163,199</u>	<u>10,296,208</u>
1100 Excess (deficiency) of revenues over expenditures	<u>167,484</u>	<u>2,008,504</u>	<u>(10,293,285)</u>
<b>Other Financing Sources (Uses)</b>			
7901 Refunding bonds issued		5,460,000	
7911 Issuance of bonds			4,290,000
7912 Sale of real or personal property	54,586		
7916 Premium or discount on issuance of bonds		136,342	92,554
7949 Other resources	200		
8911 Transfers out	(189,192)		
8949 Payment to refunded bond escrow agent		(8,276,864)	
<b>7080 Total other financing sources (uses)</b>	<u>(134,406)</u>	<u>(2,680,522)</u>	<u>4,382,554</u>
1200 Net change in fund balances	33,078	(672,018)	(5,910,731)
<b>0100 Fund Balance - beginning</b>	<u>21,699,033</u>	<u>28,977,470</u>	<u>6,229,212</u>
<b>3000 Fund Balance - ending</b>	<u>\$ 21,732,111</u>	<u>\$ 28,305,452</u>	<u>\$ 318,481</u>

See Notes to the Financial Statements.

*Exhibit C-3*

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 765,965	\$ 71,417,677
1,037,423	15,646,594
8,239,577	9,743,862
<u>10,042,965</u>	<u>96,808,133</u>
4,486,268	44,660,470
	649,358
	121,381
3,566	2,623,402
	4,621,958
343,289	1,986,851
	34,280
	565,365
	3,667,306
5,121,981	5,121,981
	1,608,522
	1,968,854
13,203	8,200,693
	824,543
	912,523
17,126	22,296
	4,743,590
	7,118,740
	127,501
	13,206,553
	1,560,236
	4,184
	517,311
<u>9,985,433</u>	<u>104,867,898</u>
<u>57,532</u>	<u>(8,059,765)</u>
	5,460,000
	4,290,000
	54,586
	228,896
	200
	(189,192)
	(8,276,864)
	<u>1,567,626</u>
57,532	(6,492,139)
<u>1,171,167</u>	<u>58,076,882</u>
<u>\$ 1,228,699</u>	<u>\$ 51,584,743</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, 2014*

<b>Data Control Codes</b>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (6,492,139)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
<b>1</b>	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
	Capital Outlay	12,835,438
	Depreciation Expense	(5,403,247)
<b>2</b>	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(224,982)
<b>3</b>	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	4,743,590
<b>4</b>	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	(9,750,000)
<b>5</b>	Premiums on the issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, premiums are treated as an increase in long-term liabilities.	(228,896)
<b>6</b>	Payment to escrow agent for payment of refunded bonds	8,276,864
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
<b>7</b>	Decrease in interest payable not recognized in fund statements	13,932
<b>8</b>	Increase in long-term portion of accrued compensated absences	67,083
<b>9</b>	Amortization of bond premiums and deferred charge on refunding	38,826
<b>10</b>	Decrease in accreted interest on capital appreciation bonds	<u>424,458</u>
	<b>Change in net position of governmental activities (see B-1)</b>	<u><u>\$ 4,300,927</u></u>

See Notes to the Financial Statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT**

*Exhibit D-1*

**STATEMENT OF NET POSITION**

**PROPRIETARY FUND**

*August 31, 2014*

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	<b>Assets</b>	
	<b>Current Assets:</b>	
1260	Due from other funds	\$ 7,303
1000	<b>Total Assets</b>	<u>7,303</u>
	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
2110	Accounts payable	523
2160	Accrued wages payable	<u>6,780</u>
2000	<b>Total Liabilities</b>	<u>7,303</u>
	<b>Net Position</b>	
3900	Unrestricted net position	<u>          </u>
3000	<b>Total Net Position</b>	<u>\$          </u>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
*For the Year Ended August 31, 2014*

*Exhibit D-2*

<u>Data Control Codes</u>	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
<b>Operating Revenues</b>	
5739 Tuition	\$ 316,676
5020 <b>Total Operating Revenues</b>	<u>316,676</u>
<b>Operating Expenses</b>	
6100 Payroll costs	494,728
6200 Purchased and contracted services	1,877
6300 Supplies and materials	12,340
6400 Other operating expenses	20,027
6030 <b>Total Operating Expenses</b>	<u>528,972</u>
1200 Operating Income (Loss)	<u>(212,296)</u>
Income (Loss) before Transfers	(212,296)
<b>Transfers</b>	
7915 Transfers in	<u>189,192</u>
1200 Change in Net Position	(23,104)
0100 <b>Net Position - beginning</b>	<u>23,104</u>
3300 <b>Net Position - ending</b>	<u><u>\$</u></u>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT***Exhibit D-3***STATEMENT OF CASH FLOWS****PROPRIETARY FUND***Year Ended August 31, 2014*

	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 316,676
Cash payments to suppliers for goods and services	(56,738)
Cash payments to employees	(490,841)
<b>Net Cash Used for Operating Activities</b>	<u>(230,903)</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Advances from other funds	189,192
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<u>189,192</u>
Net Decrease in Cash and Cash Equivalents	(41,711)
<b>Cash and Cash Equivalents at Beginning of Year</b>	41,711
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$</u></u>
<b>Reconciliation to Balance Sheet</b>	
Cash and Cash Equivalents Per Cash Flow	\$
Cash and Cash Equivalents per Balance Sheet	<u><u>\$</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Loss	\$ (212,296)
<b>Change in Assets and Liabilities:</b>	
Increase in Interfund Receivable	(7,303)
Decrease in Interfund Payables	(12,551)
Decrease in Accounts Payable	(2,640)
Increase in Accrued Wages Payable	3,887
<b>Net Cash Used for Operating Activities</b>	<u><u>\$ (230,903)</u></u>

See Notes to the Financial Statements

**SHELDON INDEPENDENT SCHOOL DISTRICT***Exhibit E-1***STATEMENT OF FIDUCIARY NET POSITION***August 31, 2014*

<u>Data Control Codes</u>		<b>810</b>	<b>865</b>
		<u>Scholarship Fund</u>	<u>Student Activity Fund</u>
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 247,438	\$ 291,992
1000	<b>Total Assets</b>	<u>247,438</u>	<u>291,992</u>
	<b>Liabilities</b>		
2170	Due to primary government		\$ 13,019
2190	Due to student groups	49,863	278,973
2000	<b>Total Liabilities</b>	<u>49,863</u>	<u>291,992</u>
	<b>Net Position</b>		
3800	Restricted for scholarships	<u>\$ 197,575</u>	

See Notes to the Financial Statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
*For the Year Ended August 31, 2014*

*Exhibit E-2*

	<b>810 Scholarship Fund</b>
<b>Additions</b>	
Gifts and contributions	\$ 48,701
Earnings on investments	358
Miscellaneous	<u>5,760</u>
<b>Total Additions</b>	<u>54,819</u>
<b>Deductions</b>	
Scholarships awarded	<u>56,750</u>
<b>Total deductions</b>	<u>56,750</u>
Change in net position	(1,931)
<b>Net position, beginning of year</b>	<u>199,506</u>
<b>Net position, end of year</b>	<u><u>\$ 197,575</u></u>

See Notes to the Financial Statements.

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

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

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

**Government-wide and Fund Financial Statements**

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

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

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

**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.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. 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.
- *Private purpose trust funds* are used to account for resources legally held in trust under which principal and income benefits individuals, private organizations or other governments. The private purpose trust funds represent scholarship funds being held in trust for students.

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

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

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

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, 2014. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

**Receivables and Payables**

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

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

**Inventories**

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.

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

**Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, and furniture and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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 \$675,917 as of August 31, 2014.

**Long-term Obligations**

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

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

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities at August 31, 2014 was \$1,584,138.

**Deferred Outflows/Inflows of Resources**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The amount of deferred inflows in the governmental funds related to unavailable revenue for property taxes at August 31, 2014 was \$1,759,799.

**Fund Equity**

Sheldon Independent School District reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

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

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

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

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

State Aid Adjustments	\$	60,000
Wealth Equalization Payments		60,000
Encumbrances		350,000
Emergency Repairs		1,500,000
	\$	<u>1,970,000</u>

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

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

**Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the Financial Accountability System Resource Guide. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

**Use of Estimates**

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

**Comparative Data/Reclassifications**

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

**Note 2 - Deposits and Investments**

**Cash Deposits**

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

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

**Cash Deposits (continued)**

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

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

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

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

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

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.

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

**Investments**

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

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

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

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

A summary of the District’s cash and investments at August 31, 2014, are shown below:

	<u>Cash and Deposits</u>	<u>Money Market Mutual Funds</u>	<u>External Investment Pools</u>	<u>Repurchase Agreement</u>	<u>Investment Securities</u>	<u>Total</u>
<b>Governmental Funds</b>						
General Fund	\$ 2,246,884	\$ 3,949,612	\$ 24,482,895	\$	\$	\$ 30,679,391
Debt Service Fund	131,374	480,385	16,423,285	1,940,868	9,059,596	28,035,508
Capital Projects Fund	233,960	19,195	1,509,385			1,762,540
Non-major Governmental Funds	105,687	522,952	662,539			1,291,178
<b>Total Governmental Funds</b>	<u>2,717,905</u>	<u>4,972,144</u>	<u>43,078,104</u>	<u>1,940,868</u>	<u>9,059,596</u>	<u>61,768,617</u>
<b>Fiduciary Funds</b>	<u>539,430</u>					<u>539,430</u>
<b>Total Cash and Investments</b>	<u>\$ 3,257,335</u>	<u>\$ 4,972,144</u>	<u>\$ 43,078,104</u>	<u>\$ 1,940,868</u>	<u>\$ 9,059,596</u>	<u>\$ 62,308,047</u>

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

**Investments (continued)**

The District's investments in government investment pools, government securities, and money market mutual funds 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 for these types of investments. The District's investment in a repurchase agreement is subject to custodial credit risk. Custodial credit risk for investments is the risk that, in the event of failure by the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that a third party bank trust department hold all securities owned by the District.

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

The following table includes the portfolio balance, credit rating and percentage of the portfolio balance by investment type of the District as of August 31, 2014:

<b>Investment Type</b>	<b>Fair Market Value</b>	<b>S &amp; P Credit Quality Ratings</b>	<b>Percentage of Investments</b>
<b>Local Government Investment Pools</b>			
Lone Star	\$ 32,171,855	AAA	54.48%
TexStar	10,906,249	AAAm	18.47%
	<u>43,078,104</u>		
<b>Investment Securities</b>			
Federal National Mortgage Assn	7,406,039	A-1+	12.54%
Repurchase Agreement	1,940,868	A3	3.29%
U.S. Treasury Securities	1,653,557	AAA	2.80%
Money Market Mutual Fund	4,972,144	Not Rated	8.42%
	<u>15,972,608</u>		
<b>Total Investments</b>	<u>\$ 59,050,712</u>		

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

**Local Government Investment Pools**

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

TexSTAR and Lone Star policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act of 1995, as amended. The value of the District's portion in TexSTAR and Lone Star are the same as the value of the shares. The external investment pool funds operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The external investment pool funds use amortized cost rather than market value to report net position to compute share price. Accordingly, the fair value of the positions of the pooled funds are the same as the value of the external investments pool funds shares. The funds are structured similar to a money market mutual fund which allows shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. At August 31, 2014, TexSTAR and Lone Star had a weighted average maturity of 52 days and 49 days, respectively. Although the external investment pool funds had a weighted average maturity of more than one day, the District considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

**Oversight Responsibility**

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

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

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

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

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

**Oversight Responsibility (continued)**

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

	<b>Fair Market Value</b>	<b>Weighted Average Maturity (Days)</b>
Cash and deposits	\$ 3,033,131	N/A
Certificates of deposit	224,204	136
<b>Investments:</b>		
Local Government Investment Pools:		
Lone Star	32,171,855	49
TexStar	10,906,249	52
Investment Securities:		
Federal National Mortgage Assn	7,406,039	64
U.S. Treasury Securities	1,653,557	18
Repurchase Agreement	1,940,868	
Money Market Mutual Fund	4,972,144	1
<b>Total Investments</b>	<u>59,050,712</u>	<u>45</u>
<b>Total Cash and Investments</b>	<u>\$ 62,308,047</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, with the exception of investments relating to the District’s trust accounts for Qualified Zone Academy Bonds and Qualified School Construction Bonds.

**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, 2014, the District’s investment in TexSTAR was rated AAAM by Standard and Poor’s. The District’s investment in Lone Star Investment Pool was rated AAA by Standard and Poor’s. The District’s investments in Federal National Mortgage Association was rated A-1+ by Standard & Poor’s.

**Concentration of Credit Risk**

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

The investments are reported by the District at fair value. The amount of investment earnings during the year ended August 31, 2014 was \$447,842.

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

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of 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. State statutes require repurchase agreements to be fully collateralized by bonds or securities issued by the federal government, or its agencies and instrumentalities. The District does not have an additional custodial credit risk policy.

On August 31, 2014, the District held a repurchase agreement investment of \$1,940,868 of which the underlying securities are held by the investments' counterparty, not in the name of the District. Eligible Securities, as identified in the repurchase agreement, require a security ratio of 103% per the terms of the agreement. The final repurchase date is February 15, 2027. At August 31, 2014, the fair market value of the pledged securities was \$2,194,035.

**Termination Risk**

If the rating assigned to the counterparty's senior unsecured long-term debt obligation falls below "A3" by Moody's and "A-" by Fitch, the counterparty shall have the right to either (1) assign the agreement to a substitute provider rated at least "A-" Standard & Poor's, "A-" by Fitch, or "A3" by Moody's; (2) obtain a guaranty, letter of credit, or surety bond from an entity rated at least "A-" by Standard & Poor's, "A-" by Fitch, or "A3" by Moody's; (3) transfer to the custodian additional eligible securities having a market value not less than 110 percent of the invested monies; or (4) take any other action mutually agreed to by both parties. If the counterparty does not take on of the permitted actions above within 10 business days, the District may cause the repurchase of all purchased securities and terminate the agreement. The counterparty shall repurchase all purchased securities at a purchase price equal to all invested moneys then held by the counterparty to the date of the repurchase.

At August 31, 2014, the credit rating assigned to the counterparty is "A3" by Moody's and "A+" by Fitch.

**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 2013-2014 were \$1.17 and \$0.26, respectively, based on an adjusted assessed property valuation of approximately \$4.86 billion resulting in an adjusted tax levy of approximately \$69.52 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.

**Note 3 - Receivables (continued)**

Net receivables, at August 31, 2014, consisted of the following:

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
Property Taxes	\$ 2,481,326	\$ 648,211	\$	\$ 3,129,537
Due from other governments	965,533		248,128	1,213,661
Other	375,427	2,519	80	378,026
Gross Receivables	3,822,286	650,730	248,208	4,721,224
Less allowance for doubtful accounts	(801,255)	(180,157)		(981,412)
<b>Net Total Receivables</b>	<b>\$ 3,021,031</b>	<b>\$ 470,573</b>	<b>\$ 248,208</b>	<b>\$ 3,739,812</b>

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, unearned revenues reported in the governmental funds were for advanced collection of fees in the amount of \$100,128.

**Note 4 - Due from other Governments**

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

**Note 5 - Interfund Activities**

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

The composition of interfund balances as of August 31, 2014, is as follows:

	<b>Interfund Receivable</b>	<b>Interfund Payable</b>
General Fund	\$ 159,935	\$ 257,985
Debt Service Fund	190,955	
Proprietary Funds	7,303	
Fiduciary Funds		13,019
Nonmajor Governmental Funds	29,507	116,696
	<b>\$ 387,700</b>	<b>\$ 387,700</b>

Interfund transfers are defined as "flows of assets without equivalent flow of assets in return and without a requirement for repayment." During the 2014 fiscal year, the District made a transfer in the amount of \$189,192 from the general fund to the proprietary fund to cover an operating deficit associated with the Early Learning Center Daycare.

**Note 6 - Capital Assets**

**Changes in Capital Assets**

A summary of changes in capital assets for the year ended August 31, 2014, are as follows:

	<b>Balance September 1, 2013</b>	<b>Additions</b>	<b>(Retirements) and Transfers</b>	<b>Balance August 31, 2014</b>
Capital assets, not being depreciated:				
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Construction in progress	972,352	9,437,858		10,410,210
<b>Total Capital assets, not being depreciated</b>	<b>6,747,548</b>	<b>9,437,858</b>		<b>16,185,406</b>
Capital assets, being depreciated:				
Buildings and improvements	224,049,664	2,226,167		226,275,831
Furniture and equipment	10,123,794	1,171,413	(81,872)	11,213,335
<b>Total Capital assets, being depreciated</b>	<b>234,173,458</b>	<b>3,397,580</b>	<b>(81,872)</b>	<b>237,489,166</b>
Less accumulated depreciation for:				
Buildings and improvements	(55,038,973)	(4,676,763)		(59,715,736)
Furniture and Equipment	(6,791,047)	(726,484)	81,872	(7,435,659)
<b>Total Accumulated depreciation</b>	<b>(61,830,020)</b>	<b>(5,403,247)</b>	<b>81,872</b>	<b>(67,151,395)</b>
<b>Governmental Capital Assets</b>	<b>\$ 179,090,986</b>	<b>\$ 7,432,191</b>	<b>\$</b>	<b>\$ 186,523,177</b>

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

<b>Function</b>	<b>Depreciation Expense</b>
Instruction	\$ 3,201,731
Instructional resources and media services	143,362
Instructional leadership	47,788
School leadership	143,362
Guidance, counseling and evaluation services	47,788
Health services	47,788
Student transportation	567,607
Food Services	415,945
Extracurricular activities	453,363
General administration	47,788
Plant maintenance and operations	238,937
Data processing services	47,788
	<b>\$ 5,403,247</b>

The District has active construction projects as of August 31, 2014. At fiscal year end, the District's commitments with contractors are as follows:

<b>Project</b>	<b>Approved Construction Budget</b>	<b>Construction in Progress</b>	<b>Remaining Commitment</b>
Competition Gym	\$ 11,876,000	\$ 10,410,210	\$ 1,465,790

**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, 2014, follows:

	<b>Balance August 31, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance August 31, 2014</b>	<b>Due Within One Year</b>
General obligation bonds	\$ 174,588,248	\$ 9,750,000	\$ (12,943,590)	\$ 171,394,658	13,084,661
Premiums/discounts	3,536,094	228,896	(162,524)	3,602,466	
Accreted interest on premium compound interest bonds	743,944	41,952	(466,410)	319,486	319,486
Compensated absences payable	743,000	110,217	(177,300)	675,917	127,370
	<u>1,486,944</u>	<u>152,169</u>	<u>(643,710)</u>	<u>995,403</u>	<u>446,856</u>
	<u>\$ 179,611,286</u>	<u>\$ 10,131,065</u>	<u>\$ (13,749,824)</u>	<u>\$ 175,992,527</u>	<u>\$ 13,531,517</u>

Bonded long-term debt, at August 31, 2014, is comprised of the following individual issues:

<b>Issue</b>	<b>Interest Rate (%)</b>	<b>Maturity Date</b>	<b>Debt Outstanding</b>
Unlimited Tax School Building Bonds, Series 2001B	0%	2015	\$ 8,000,000
Unlimited Tax School Building Bonds, Series 2005	0%	2020	3,000,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	4,605,000
Unlimited Tax School Building Bonds, Series 2006	4.00% to 5.00%	2036	14,225,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	0.00% to 5.00%	2037	41,054,663
Unlimited Tax School Building Bonds, Series 2008	0.00% to 5.00%	2038	15,870,000
Unlimited Tax Refunding Bonds, Series 2009	2.00% to 3.13%	2019	3,310,000
Unlimited Tax Refunding Bonds, Series 2010	1.75% to 4.00%	2027	16,684,999
Unlimited Qualified School Construction Bonds, Series 2010	0%	2027	8,200,000
Unlimited Tax School Building Bonds, Series 2010A	0.00% to 4.00%	2040	8,540,000
Unlimited Tax School Building Bonds, Series 2011	2.00% to 3.00%	2041	5,730,000
Unlimited Tax Refunding Bonds, Series 2011	2.00% to 3.00%	2028	3,329,996
Unlimited Tax School Building and Refunding Bonds, Series 2012	1.00% to 2.00%	2032	9,200,000
Unlimited Tax School Building and Refunding Bonds, Series 2013	3.00% to 3.50%	2043	19,940,000
Unlimited Tax School Building and Refunding Bonds, Series 2014	2.30% to 2.55%	2039	9,705,000
			<u>\$ 171,394,658</u>

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

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

Annual requirements to amortize all bonded long-term debt outstanding as of August 31, 2014, follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 13,084,661	\$ 6,858,615	\$ 19,943,276
2016	6,000,000	6,344,822	12,344,822
2017	6,235,000	6,119,798	12,354,798
2018	6,470,000	5,883,224	12,353,224
2019	6,710,000	5,632,674	12,342,674
2020-2024	38,900,000	23,984,840	62,884,840
2025-2029	41,879,997	16,280,254	58,160,251
2030-2034	27,130,000	8,599,335	35,729,335
2035-2039	21,455,000	2,483,692	23,938,692
2040-2041	3,530,000	213,626	3,743,626
	<u>\$ 171,394,658</u>	<u>\$ 82,400,880</u>	<u>\$ 253,795,538</u>

**Accreted Interest on Premium Compound Interest Bonds**

A portion of the bonds sold in the Series 2007 bond issue 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</u> <u>Value</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u>	<u>Maturity</u> <u>Value</u>	<u>Maturity Dates</u>
2007	\$ 1,052,304	\$ 732,818	\$ 319,486	\$ 1,390,000	2015

**Qualified Zone Academy Bonds and Qualified School Construction Bonds**

The District is scheduled to make annual deposits into trust accounts for the Qualified Zone Academy Bonds (QZAB), Series 2001B and Series 2005 and Qualified School Construction Bonds (QSCB), Series 2010. These annual deposits plus the interest earned on the trust accounts will be used to pay off the debt upon maturities at 2015, 2020, and 2027 respectively. The Districts accounts for these trust accounts as *restricted cash and temporary investments* on both the Statement of Net Position (Exhibit A-1) and in the Debt Service fund on the Governmental Funds Balance Sheet (Exhibit C-1).

Funds held in trust for Qualified Zone Academy Bonds (QZAB) and Qualified School Construction Bonds (QSCB) are comprised of the following balances at August 31, 2014:

<u>Issue</u>	<u>Restricted Cash</u> <u>and Temporary</u> <u>Investments</u>	<u>Maturity Amount</u>	<u>Maturity Date</u>
Unlimited Tax School Building Bonds, Series 2001B	\$ 7,406,039	\$ 8,000,000	2015
Unlimited Tax School Building Bonds, Series 2005	1,653,557	3,000,000	2020
Unlimited Tax Qualified School Construction Bonds, Series 2010	1,940,868	8,200,000	2027
	<u>\$ 11,000,464</u>	<u>\$ 19,200,000</u>	

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

**Prior Year Refunding of Long-Term Debt**

In prior years, the District defeased, certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust, to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2014, all of previously refunded debt has been retired.

**Advanced Refunding**

During the 2014 fiscal year, The District issued Unlimited Tax Building and Refunding Bonds, Series 2014 in the amount of \$9,705,000. The amount of the refunded bonds totaled \$8,200,000. Premiums on the bonds totaled \$228,895. As a result, the refunded bonds have been removed from the governmental activities column of the statement of net position. Interest rates on the bonds range from 2.30 percent to 2.55 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$76,864. This amount is being netted against the new debt and amortized over the remaining life of the old debt, which is shorter than the life of the new debt issued. The transactions also resulted in an economic gain of \$1,066,264.

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

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 57,091,165	\$ 12,741,074	\$	\$	\$ 69,832,239
Investment Income	14,282	430,629	2,282	649	447,842
Co-curricular student activities	100,318				100,318
Food Sales				682,240	682,240
Other	271,321		641	83,076	355,038
	<u>\$ 57,477,086</u>	<u>\$ 13,171,703</u>	<u>\$ 2,923</u>	<u>\$ 765,965</u>	<u>\$ 71,417,677</u>

**Note 9 - Retirement Plan**

**Plan Description**

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

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

**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 2014, 2013, and 2012. The State contributed at a rate of 6.8% for fiscal year 2014 of all employees’ eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are requirement to contribute 6.8% for fiscal year 2014, 6.4% for fiscal year 2013 and 6.0% for fiscal year 2012.

**Contributions**

Contributions made by the State, District and staff members for the years ended August 31, 2014, 2013, and 2012 are as follows:

<b>Fiscal Year</b>	<b>Contributions Required and Made (in millions)</b>				<b>Annual Covered Payroll</b>
	<b>State</b>	<b>District</b>	<b>Employees</b>	<b>Totals</b>	
2014	\$ 2.389	\$ 0.999	\$ 3.188	\$ 6.576	\$ 49.819
2013	2.099	0.801	2.900	5.800	45.313
2012	1.928	0.758	2.865	5.551	44.768

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

**Note 10 - Retiree Health Plan**

**Plan Description**

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

**Note 10 - Retiree Health Plan (continued)**

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.

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2014, 2013, and 2012. 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%.

Contributions made by the State, District and staff members for the years ended August 31, 2014, 2013, and 2012, are as follows:

Fiscal Year	Contributions Required and Made (in millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2014	\$ 0.224	\$ 0.309	\$ 0.324	\$ 0.857	\$ 49.819
2013	0.211	0.265	0.295	0.771	45.313
2012	0.415	0.279	0.291	0.985	44.768

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, 2014, 2013 and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$130,978, \$118,888 and \$115,083, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

**Note 11 - Litigation**

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

**Note 12 - Contingent Liabilities**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

*For the Year Ended August 31, 2014*

<b>Data Control Codes</b>	<b>Budgeted Amounts</b>		
	<b>Original</b>	<b>Final</b>	
<b>Revenues</b>			
5700	Local and intermediate sources	\$ 50,666,910	\$ 58,098,012
5800	State program revenues	21,200,040	18,124,540
5900	Federal program revenues	1,399,500	1,399,500
<b>5020</b>	<b>Total revenues</b>	<b>73,266,450</b>	<b>77,622,052</b>
<b>Expenditures</b>			
<b>Current:</b>			
0011	Instruction	40,942,740	41,318,474
0012	Instructional resources and media services	798,055	699,593
0013	Curriculum and staff development	130,820	131,749
0021	Instructional leadership	2,592,000	2,683,816
0023	School leadership	4,464,790	4,698,671
0031	Guidance, counseling and evaluation services	1,668,040	1,693,443
0032	Social work services	34,300	34,300
0033	Health services	555,035	597,754
0034	Student transportation	3,806,956	3,806,370
0036	Extracurricular activities	1,742,219	1,898,689
0041	General administration	2,021,310	2,134,792
0051	Facilities maintenance and operations	8,689,288	8,985,766
0052	Security and monitoring services	950,360	868,560
0053	Data processing services	858,700	943,546
0061	Community services	6,600	13,218
<b>Debt Service:</b>			
0071	Principal on long-term debt	744,080	744,080
<b>Capital outlay:</b>			
0081	Facilities acquisition and construction	2,177,497	3,751,247
<b>Intergovernmental:</b>			
0091	Contracted instructional services between schools	1,350,000	1,350,000
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	35,000	35,000
0099	Other intergovernmental charges	510,900	510,900
<b>6030</b>	<b>Total Expenditures</b>	<b>74,078,690</b>	<b>76,899,968</b>
1100	Excess (deficiency) of revenues over expenditures	(812,240)	722,084
<b>Other Financing Sources (Uses)</b>			
7912	Sale of real or personal property		54,000
7949	Other resources		41,946
8911	Transfers Out	(2,192,329)	(177,580)
<b>7080</b>	<b>Total other financing sources and uses</b>	<b>(2,192,329)</b>	<b>(81,634)</b>
1200	Net change in fund balances	(3,004,569)	640,450
<b>0100</b>	<b>Fund balances - beginning</b>	<b>21,699,033</b>	<b>21,699,033</b>
<b>3000</b>	<b>Fund balances - ending</b>	<b>\$ 18,694,464</b>	<b>\$ 22,339,483</b>

*Exhibit G-1*

<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
\$ 57,477,086	\$ (620,926)
14,609,171	(3,515,369)
1,504,285	104,785
<u>73,590,542</u>	<u>(4,031,510)</u>
40,174,202	1,144,272
649,358	50,235
121,381	10,368
2,619,836	63,980
4,621,958	76,713
1,643,562	49,881
34,280	20
565,365	32,389
3,667,306	139,064
1,608,522	290,167
1,968,854	165,938
8,187,490	798,276
824,543	44,017
912,523	31,023
5,170	8,048
744,078	2
2,992,899	758,348
1,560,236	(210,236)
4,184	30,816
517,311	(6,411)
<u>73,423,058</u>	<u>3,476,910</u>
<u>167,484</u>	<u>(554,600)</u>
54,586	586
200	(41,746)
(189,192)	(11,612)
<u>(134,406)</u>	<u>(52,772)</u>
33,078	(607,372)
21,699,033	
<u>\$ 21,732,111</u>	<u>\$ (607,372)</u>

**Budgets and Budgetary Accounting**

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

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2014.

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

The official school budget was prepared for adoption for budgeted governmental fund types by August 25, 2013. 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, with the exception of the following:

- Payments for contracted instructional services between schools in the amount of \$210,236; and
- Other intergovernmental charges in the amount of \$6,411.

**OTHER SUPPLEMENTARY INFORMATION**

**SHELDON INDEPENDENT SCHOOL DISTRICT**

*COMBINING BALANCE SHEET*

*ALL NONMAJOR GOVERNMENTAL FUNDS*

*August 31, 2014*

	211	224	225
<b>Data Control Codes</b>	<b>ESEA Title I Part A</b>	<b>IDEA B Formula</b>	<b>IDEA B Preschool Grant</b>
<b>Assets</b>			
1110	Cash and temporary investments	\$	\$
	Receivables:		
1240	Receivables from other governments	17,903	
1260	Due from other funds		
1290	Other receivables		
1310	Inventories, at cost		
<b>1000</b>	<b>Total Assets</b>	<u>\$ 17,903</u>	<u>\$</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
2110	Accounts payable	\$ 8,236	\$
2160	Accrued wages payable		
2170	Due to other funds	9,667	
2300	Unearned revenues		
<b>2000</b>	<b>Total Liabilities</b>	<u>17,903</u>	<u></u>
<b>Fund Balance:</b>			
<b>Nonspendable:</b>			
3410	Inventories		
<b>Restricted:</b>			
3450	Grant Funds		
<b>3000</b>	<b>Total Fund Balances</b>	<u></u>	<u></u>
<b>4000</b>	<b>Total Liabilities and Fund Balance</b>	<u>\$ 17,903</u>	<u>\$</u>

226                      240                      244                      255                      263

<u>IDEA B- Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>
\$	\$ 1,238,902	\$	\$	\$
	111,036		11,454	4,025
	19,688			
	80			
	108,092			
<u>\$</u>	<u>\$ 1,477,798</u>	<u>\$</u>	<u>\$ 11,454</u>	<u>\$ 4,025</u>
\$	\$ 155,790	\$	\$	\$ 2,899
	60,266			
			11,454	1,126
	43,102			
	259,158		11,454	4,025
	108,092			
	1,110,548			
	1,218,640			
<u>\$</u>	<u>\$ 1,477,798</u>	<u>\$</u>	<u>\$ 11,454</u>	<u>\$ 4,025</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

*COMBINING BALANCE SHEET*

*ALL NONMAJOR GOVERNMENTAL FUNDS*

*August 31, 2014*

<b>Data Control Codes</b>	<b>265</b>	<b>289</b>	<b>410</b>
	<b>21st Century Grant</b>	<b>Federally Funded Special Revenue Fund</b>	<b>Instructiona I Materials</b>
<b>Assets</b>			
1110	Cash and temporary investments	\$ 1,846	\$ 33,277
	Receivables:		
1240	Receivables from other governments	85,275	5,221
1260	Due from other funds		7,621
1290	Other receivables		
1310	Inventories, at cost		
<b>1000</b>	<b>Total Assets</b>	<u>\$ 87,121</u>	<u>\$ 40,898</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
2110	Accounts payable	\$	\$ 15,144
2160	Accrued wages payable	9,241	1,866
2170	Due to other funds	77,880	3,355
2300	Unearned revenues		25,754
<b>2000</b>	<b>Total Liabilities</b>	<u>87,121</u>	<u>40,898</u>
<b>Fund Balance:</b>			
<b>Nonspendable:</b>			
3410	Inventories		
<b>Restricted:</b>			
3450	Grant Funds		
<b>3000</b>	<b>Total Fund Balances</b>	<u></u>	<u></u>
<b>4000</b>	<b>Total Liabilities and Fund Balance</b>	<u>\$ 87,121</u>	<u>\$ 40,898</u>

418	465	481	482	
<b>Health Science</b>	<b>Pass Grant (ECHS)</b>	<b>Houston A+ Challenge</b>	<b>Summer College Readiness</b>	<b>Total Nonmajor Governmental Funds</b>
\$	\$ 6,605	\$ 4,308	\$ 6,240	\$ 1,291,178
13,214				248,128
	2,198			29,507
				80
				108,092
<u>\$ 13,214</u>	<u>\$ 8,803</u>	<u>\$ 4,308</u>	<u>\$ 6,240</u>	<u>\$ 1,676,985</u>
\$	\$ 8,803	\$	\$ 489	\$ 191,361
13,214				71,373
				116,696
				68,856
<u>13,214</u>	<u>8,803</u>	<u></u>	<u>489</u>	<u>448,286</u>
				108,092
		4,308	5,751	1,120,607
		4,308	5,751	1,228,699
<u>\$ 13,214</u>	<u>\$ 8,803</u>	<u>\$ 4,308</u>	<u>\$ 6,240</u>	<u>\$ 1,676,985</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, 2014**

	<b>211</b>	<b>224</b>	<b>225</b>
<b>Data Control Codes</b>	<b>ESEA Title I Part A</b>	<b>IDEA B Formula</b>	<b>IDEA B Preschool Grant</b>
<b>Revenues</b>			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	1,563,065	1,208,968	13,929
5020 <b>Total revenues</b>	<u>1,563,065</u>	<u>1,208,968</u>	<u>13,929</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011 Instruction	1,543,699	865,679	13,929
0021 Instructional leadership	2,240		
0031 Guidance, counseling and evaluation services		343,289	
0035 Food service			
0051 Facilities maintenance and operations			
0061 Community services	17,126		
6030 <b>Total Expenditures</b>	<u>1,563,065</u>	<u>1,208,968</u>	<u>13,929</u>
1200 Net change in fund balances			
0100 <b>Fund balance - beginning</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
3000 <b>Fund balance - ending</b>	<u>\$                    </u>	<u>\$                    </u>	<u>\$                    </u>

226	240	244	255	263
<u>IDEA B- Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>
\$	\$ 683,465 121,897	\$	\$	\$
<u>175,985</u>	<u>4,398,331</u>	<u>95,681</u>	<u>148,083</u>	<u>253,423</u>
<u>175,985</u>	<u>5,203,693</u>	<u>95,681</u>	<u>148,083</u>	<u>253,423</u>
175,985		95,681	146,757 1,326	253,423
	5,121,981			
<u>175,985</u>	<u>5,121,981</u>	<u>95,681</u>	<u>148,083</u>	<u>253,423</u>
	81,712			
	<u>1,136,928</u>			
<u>\$</u>	<u>\$ 1,218,640</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, 2014*

<u>Data Control Codes</u>		<b>265</b>	<b>289</b>	<b>410</b>
		<u>21st Century Grant</u>	<u>Federally Funded Special Revenue Fund</u>	<u>Instructional Materials</u>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			894,704
5900	Federal program revenues	332,112	50,000	
5020	<b>Total revenues</b>	<u>332,112</u>	<u>50,000</u>	<u>894,704</u>
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction	318,909	50,000	894,704
0021	Instructional leadership			
0031	Guidance, counseling and evaluation services			
0035	Food service			
0051	Plant maintenance and operations	13,203		
0061	Community services			
6030	<b>Total Expenditures</b>	<u>332,112</u>	<u>50,000</u>	<u>894,704</u>
1200	Net change in fund balances			
0100	<b>Fund balance - beginning</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
3000	<b>Fund balance - ending</b>	<u>\$                    </u>	<u>\$                    </u>	<u>\$                    </u>

418	465	481	482	
Health Science	Pass Grant (ECHS)	Houston A+ Challenge	Summer College Readiness	Total Nonmajor Governmental Funds
\$ 20,822	\$ 75,000	\$ 7,500	\$	\$ 765,965
				1,037,423
				8,239,577
<u>20,822</u>	<u>75,000</u>	<u>7,500</u>		<u>10,042,965</u>
20,822	99,050	6,533	1,097	4,486,268
				3,566
				343,289
				5,121,981
				13,203
				17,126
<u>20,822</u>	<u>99,050</u>	<u>6,533</u>	<u>1,097</u>	<u>9,985,433</u>
	(24,050)	967	(1,097)	57,532
	<u>24,050</u>	<u>3,341</u>	<u>6,848</u>	<u>1,171,167</u>
<u>\$</u>	<u>\$</u>	<u>\$ 4,308</u>	<u>\$ 5,751</u>	<u>\$ 1,228,699</u>

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## **TEA REQUIRED INFORMATION**

**SHELDON INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**

*For the Year Ended August 31, 2014*

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>3 Net Assessed/ Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 9/1/2013</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2005 and prior	Various	Various	Various	\$ 586,425
2006	1.50000	0.25000	1,927,391,387	97,771
2007	1.37000	0.26400	2,167,878,396	75,862
2008	1.04000	0.39000	3,262,365,274	76,637
2009	1.04000	0.39000	3,383,408,252	109,726
2010	1.04000	0.39000	3,449,039,580	214,599
2011	1.04000	0.39000	3,243,212,098	231,879
2012	1.09000	0.34000	3,505,474,406	342,246
2013	1.09000	0.34000	3,638,719,292	662,849
2014	1.17000	0.26000	4,861,681,259	
<b>1000 Totals</b>				<u>\$ 2,397,994</u>

*Exhibit J-1*

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 8/31/2014</u>
\$	\$ 13,363	\$ 1,693	\$ (342,007)	\$ 229,362
	5,326	888	(869)	90,688
	12,923	2,490	(797)	59,652
	11,239	4,215	(235)	60,948
	24,614	9,230	13,029	88,911
	30,433	11,412	15,461	188,215
	39,035	14,638	16,719	194,925
	112,098	34,966	9,499	204,681
	289,071	90,169	(16,687)	266,922
<u>69,522,042</u>	<u>56,380,695</u>	<u>12,529,043</u>	<u>(47,134)</u>	<u>565,170</u>
<u>\$ 69,522,042</u>	<u>\$ 56,918,797</u>	<u>\$ 12,698,744</u>	<u>\$ (353,021)</u>	<u>1,949,474</u>
				<u>Penalty and interest receivable on taxes</u>
				1,180,063
				<b><u>Total taxes receivable per Exhibit C-1</u></b>
				<b><u>\$ 3,129,537</u></b>

**SHELDON INDEPENDENT SCHOOL DISTRICT***Exhibit J-3***FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)****GENERAL FUND***August 31, 2014*

<b>Data Control Code</b>	<b>Explanation</b>	<b>Amount</b>
1.	Total General Fund Balance as of 8-31-14 (Exhibit C-1 object 3000 for the General Fund only)	\$ 21,801,416
2.	Total Nonspendable Fund Balance 8-31-14 (from Exhibit C-1 - total of object 341X - 344X for the General Fund only)	333,041
3.	Total Restricted Fund Balance 8-31-14 (from Exhibit C-1 - total of object 345X - 349X for the General Fund only)	39,368
4.	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X - 354X for the General Fund only)	
5.	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	1,970,000
6.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	16,815,000
7.	Estimate of two month's average cash disbursements during the fiscal year	12,400,000
8.	Estimate of delayed payments from state sources (58xx)	
9.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10.	Estimate of delayed payments from federal sources (59xx)	
11.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of	
12.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10+11)	<u>31,557,409</u>
13.	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	<u>\$ (9,755,993)</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, 2014*

Data Control Codes		Child Nutrition			
		Budget		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 805,490	\$ 805,490	\$ 683,465	\$ (122,025)
5800	State Program Revenues	115,140	115,140	121,897	6,757
5900	Federal Program Revenues	4,079,230	4,279,230	4,398,331	119,101
<b>5020</b>	<b>Total Revenues</b>	<u>4,999,860</u>	<u>5,199,860</u>	<u>5,203,693</u>	<u>3,833</u>
<b>Expenditures</b>					
<b>Current:</b>					
0035	Food Services	5,000,360	5,333,360	5,121,981	211,379
<b>6030</b>	<b>Total Expenditures</b>	<u>5,000,360</u>	<u>5,333,360</u>	<u>5,121,981</u>	<u>211,379</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(500)</u>	<u>(133,500)</u>	<u>81,712</u>	<u>215,212</u>
<b>Other Financing Sources (Uses)</b>					
7990	Other Financing Sources	500	500		(500)
<b>7080</b>	<b>Total other financing sources (uses)</b>	<u>500</u>	<u>500</u>		<u>(500)</u>
1200	Increase (Decrease) in Fund Balance		(133,000)	81,712	214,712
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>1,136,928</u>	<u>1,136,928</u>	<u>1,136,928</u>	
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 1,136,928</u>	<u>\$ 1,003,928</u>	<u>\$ 1,218,640</u>	<u>\$ 214,712</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**

*Exhibit J-5*

**BUDGETARY COMPARISON SCHEDULE**

**DEBT SERVICE FUND**

*For the Year Ended August 31, 2014*

Data Control Codes		Debt Service Fund			
		Budget			Final Budget Positive (Negative)
		Original	Final	Actual	
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 11,357,000	\$ 12,942,000	\$ 13,171,703	\$ 229,703
<b>5020</b>	<b>Total Revenues</b>	<u>11,357,000</u>	<u>12,942,000</u>	<u>13,171,703</u>	<u>229,703</u>
<b>Expenditures</b>					
<b>Current:</b>					
<b>Debt Service:</b>					
0071	Principal on Long-term Debt	4,153,591	4,198,590	4,198,590	
0072	Interest on Long-term Debt	8,029,646	8,029,646	6,919,662	1,109,984
0073	Bond Issuance Costs and Fees	150,000	258,614	44,947	213,667
<b>6030</b>	<b>Total Expenditures</b>	<u>12,333,237</u>	<u>12,486,850</u>	<u>11,163,199</u>	<u>1,323,651</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(976,237)</u>	<u>455,150</u>	<u>2,008,504</u>	<u>1,553,354</u>
<b>Other Financing Sources (Uses)</b>					
7910	Bond Proceeds	976,237	8,340,000	5,460,000	(2,880,000)
7916	Premium			136,342	136,342
8949	Payment to refunded bond escrow agent		(11,085,000)	(8,276,864)	2,808,136
8989	Non-Operating Expenses		(1,431,387)		1,431,387
<b>7080</b>	<b>Total other financing sources (uses)</b>	<u>976,237</u>	<u>(4,176,387)</u>	<u>(2,680,522)</u>	<u>1,495,865</u>
1200	Increase (Decrease) in Fund Balance		(3,721,237)	(672,018)	3,049,219
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>28,977,470</u>	<u>28,977,470</u>	<u>28,977,470</u>	
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 28,977,470</u>	<u>\$ 25,256,233</u>	<u>\$ 28,305,452</u>	<u>\$ 3,049,219</u>

**FEDERAL AWARDS SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District"), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 20, 2015.

### **Internal Control Over Financial Reporting**

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

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

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

To the Board of Trustees  
Sheldon Independent School District

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Houston, Texas  
January 20, 2015

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

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

**Report on Compliance for Each Major Federal Program**

We have audited Sheldon Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

To the Board of Trustees  
Sheldon Independent School District

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

### **Report on Internal Control Over Compliance**

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

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

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

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



Houston, Texas  
January 20, 2015

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended August 31, 2014*

**I. Summary of Auditors' Results**

**Financial Statements**

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

**Federal Awards**

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

Identification of major programs

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

**US Department of Education**

ESEA Title I, Part A, Improving Basic Programs	84.010A
Special Education Cluster	
IDEA Part B – Special Education Formula	84.173A
IDEA Part B - Preschool	84.027A
IDEA Part B - Discretionary	84.027A
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, 2014***

**II. Financial Statement Findings**

**Significant Deficiencies.**

None noted.

**III. Federal Awards Findings and Questioned Costs**

None noted.

**IV. Status Of Prior Year Findings**

None noted.

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2014

*Exhibit K-1*

(2A)	(1)	(2)	(3)
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund Federal CFDA Number	Federal Expenditures
<b>U.S. Department of Education</b>			
<b>Passed Through Texas Education Agency:</b>			
14610101101924000	<i>ESEA Title I, Improving Basic Programs</i>	211 84.010A	\$ 1,563,065
146600011019246600	<i>IDEA Part B - Special Education Formula*</i>	224 84.027A	1,208,968
146610011019246610	<i>IDEA Part B - Preschool*</i>	225 84.173A	13,929
146600021019246677	<i>IDEA Part B - Discretionary*</i>	226 84.027A	175,985
14420006101924	<i>Carl D. Perkins, Basic Grant</i>	244 84.048A	95,681
14694501101924	<i>ESEA Title II, Part A - Teacher/Principal Training and Recruiting</i>	255 84.367A	148,083
14671001101924	<i>ESEA Title III, Part A - LEP</i>	263 84.365A	253,423
69551402	<i>Summer School LEP</i>	289 84.369A	13,279
<b>Total passed through Texas Education Agency</b>			<u>3,472,413</u>
<b>Passed Through Harris County Department of Education:</b>			
S287B010187	<i>21 Century Community Learning Centers</i>	265 84.287C	<u>332,112</u>
<b>Total U.S. Department of Education</b>			<u>3,804,525</u>
<b>U.S. Department of Agriculture</b>			
<b>Passed Through Texas Department of Agriculture:</b>			
101924	<i>Child and Adult Care Food Program</i> Child Nutrition Cluster: Non Cash Assistance (Commodities)	240 10.558	3,162
101924	<i>National School Lunch Program**</i>	240 10.555	309,692
<b>Passed Through State Department of Education:</b>			
Cash Assistance:			
71301401	<i>National School Lunch Program**</i>	240 10.555	2,769,281
71401401	<i>School Breakfast Program**</i>	240 10.553	<u>1,316,197</u>
<b>Total U.S. Department of Agriculture</b>			<u>4,398,332</u>
<b>U.S. Department of Health and Human Services</b>			
<b>Passed Through Harris County Department of Education:</b>			
2814CCMC24	<i>Child Care and Development Funds - TWC Partnership</i>	289 93.596	50,000
<b>Passed Through University of Houston Health Science Center Houston:</b>			
008571E	<i>Abstinence Education</i>	199 93.235	<u>12,300</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>62,300</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 8,265,157</u>

\*Special Education Cluster

\*\*Child Nutrition Cluster

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**Note 2 - Summary of Significant Accounting Policies**

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

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

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

**Note 3 - Reconciliation to Basic Financial Statements**

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

Federal Program Revenues (Per Exhibit C-3)	\$	9,743,862
SHARS		(1,049,634)
Federal Interest Subsidy		(428,573)
Other Federal Program Revenue		(498)
Expenditures of Federal Awards per SEFA	\$	<u>8,265,157</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT**  
**REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
*August 31, 2014*

*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 unmodified 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>\$ 319,486</u>

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