

SHELDON INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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**SHELDON INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF THE BOARD**

Sheldon Independent
School District
Name of Local Education Agency

Harris
County

101-924
County-District-Number

We, the undersigned, certify that the attached annual financial report of the above named school district was reviewed and

approved disapproved
 ✓ _____

for the year ended August 31, 2016 at a meeting of the Board of Trustees of such school district on the 17th day of January, 2017.



Signature of Board Secretary



Signature of Board President

If the Board of Trustees disapproved the auditor's report, the reason(s) for disapproving it is (are):

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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, 2016, 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

The District's 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.

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 Sheldon Independent School District as of August 31, 2016 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, Schedule of Revenues, Expenditures and Change in Fund Balance – Budget to Actual – General Fund, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Contributions 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 the required TEA schedules, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

Board of Trustees
Sheldon Independent School District

The combining and individual nonmajor fund financial statements, required TEA schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
January 17, 2017

Management's Discussion and Analysis (Unaudited)

As management of the Sheldon Independent School District ("the District"), we offer readers of the accompanying report this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2016.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year-end by \$54,027,678 (net position). Of this amount, \$6,447,582 (unrestricted net position) is available to meet the District's ongoing obligations to students and creditors in subsequent years.
- The District's total net position increased by \$301,799.
- As of the close of the year, the District's governmental funds had combined ending fund balances of \$42,225,503, an increase of \$2,794,181 as compared to the preceding year. The change in governmental fund balances was primarily due to increases in property tax revenues and the issuance of bonds.
- At the end of the year, unassigned fund balance of the general fund was \$14,812,774, or 18 percent of the year's total general fund expenditures.
- The District's total net bonded debt decreased by \$2,438,471 (1 percent) during the 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic 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 enterprise.

The *Statement of Net Position* (Exhibit A-1) presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as an indicator of how the financial position of the District is changing.

The *Statement of Activities* (Exhibit B-1) presents information showing how the District's net position changed during the 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 operations (*governmental activities*) of the District are principally supported by taxes and intergovernmental revenues. 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 Service, Cocurricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Repair and Maintenance,*

Contracted Instructional Services Between Schools, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges.

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 as noted in the table of contents.

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 cash resources*, as well as on *balances of cash resources* available at the end of the fiscal year. Such information may be useful in evaluating near-term financing requirements.

Because the focus of governmental funds financial statements 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 effect 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 maintained twenty individual governmental funds during the year. 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, which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation titled *total nonmajor funds*.

The District adopts an annual revenue and appropriations budget for its general fund, debt service fund and National School Breakfast and Lunch Program special revenue fund. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget.

The basic governmental fund financial statements can be found as noted in the table of contents.

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 activity 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 are 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 are noted in the table of contents of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students and student organizations. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs and activities. 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 as noted in the table of contents of this report.

Notes to the Basic 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 basic financial statements are noted in the table of contents 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. Additionally, the required supplementary information presents the District's pension schedules. The required supplementary information can be found as noted in the table of contents.

Other Information. In addition to the basic financial statements and accompanying notes and required supplemental information, this report presents additional supplementary information, including schedules required by the Texas Education Agency. Such information is noted in the table of contents of this report.

Government-wide Financial Analysis

As mentioned earlier, net position may, over time, serve as an indicator of a District's changing financial position. At the close of the District's most recent fiscal year, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$54,027,678.

The District's net investment in capital assets (e.g. land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to \$24,438,071. 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	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 50,882,605	\$ 53,338,115	\$ 7,614	\$ 6,192	\$ 50,890,219	\$ 53,344,307
Capital Assets, net of Accumulated Depreciation	182,810,730	185,418,391	-	-	182,810,730	185,418,391
Total Assets	233,693,335	238,756,506	7,614	6,192	233,700,949	238,762,698
Total Deferred Outflows of Resources	14,409,141	4,184,343	-	-	14,409,141	4,184,343
Current Liabilities	6,537,109	10,628,846	7,614	6,192	6,544,723	10,635,038
Long-Term Liabilities Outstanding	183,598,091	175,410,528	-	-	183,598,091	175,410,528
Total Liabilities	190,135,200	186,039,374	7,614	6,192	190,142,814	186,045,566
Total Deferred Inflows of Resources	3,939,598	3,175,596	-	-	3,939,598	3,175,596
Net Position:						
Net Investment in Capital Assets	24,438,071	23,866,654	-	-	24,438,071	23,866,654
Restricted	23,142,025	21,763,551	-	-	23,142,025	21,763,551
Unrestricted	6,447,582	8,095,674	-	-	6,447,582	8,095,674
Total Net Position	\$ 54,027,678	\$ 53,725,879	\$ -	\$ -	\$ 54,027,678	\$ 53,725,879

Net position of \$23,142,025, which represents 43 percent of total net position, is restricted for future debt service and grant expenditures. Unrestricted net position of \$6,447,582 may be used to meet future obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all categories of net position for governmental and business-type activities.

The District's net position increased by \$301,799 as a result of operations during the current fiscal year primarily related to an increase in state aid and an increase in property tax revenue, related to an increase in the appraised value.

SHELDON INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue:						
Program Revenues:						
Charges for Services	\$ 908,811	\$ 899,248	\$ 338,574	\$ 330,466	\$ 1,247,385	\$ 1,229,714
Operating Grants and Contributions	17,329,423	14,133,648	-	-	17,329,423	14,133,648
General Revenues:						
Property Taxes, Levied for General Purposes	61,972,473	58,570,745	-	-	61,972,473	58,570,745
Property Taxes, Levied for Debt Service	12,697,629	13,046,639	-	-	12,697,629	13,046,639
Grants and Contributions Not Restricted to Specific Programs	12,502,856	12,275,908	-	-	12,502,856	12,275,908
Investment Earnings	324,402	375,870	-	-	324,402	375,870
Gain (Loss) on Sale of Capital Asset	23,715	-	-	-	23,715	-
Miscellaneous	252,646	282,937	-	-	252,646	282,937
Total Revenues	106,011,955	99,584,995	338,574	330,466	106,350,529	99,915,461
Expenses:						
Instruction	57,027,748	51,546,641	-	-	57,027,748	51,546,641
Instructional Resources and Media Services	927,672	854,840	-	-	927,672	854,840
Curriculum and Instructional Staff Development	158,917	130,634	-	-	158,917	130,634
Instructional Leadership	3,302,878	3,049,366	-	-	3,302,878	3,049,366
School Leadership	5,545,083	5,220,749	-	-	5,545,083	5,220,749
Guidance, Counseling, and Evaluation Services	2,437,019	2,081,006	-	-	2,437,019	2,081,006
Social Work Services	36,879	35,500	-	-	36,879	35,500
Health Services	731,014	671,675	-	-	731,014	671,675
Student Transportation	4,271,721	4,249,923	-	-	4,271,721	4,249,923
Food Services	6,462,825	5,987,329	-	-	6,462,825	5,987,329
Extracurricular Activities	2,392,478	2,214,718	-	-	2,392,478	2,214,718
General Administration	2,487,743	2,626,277	-	-	2,487,743	2,626,277
Plant Maintenance and Operations	8,816,971	8,949,137	-	-	8,816,971	8,949,137
Security and Monitoring Services	781,854	852,393	-	-	781,854	852,393
Data Processing Services	1,203,255	1,124,291	-	-	1,203,255	1,124,291
Community Services	91,873	26,506	-	583,879	91,873	610,385
Interest on Long-term Debt	5,212,862	6,293,222	-	-	5,212,862	6,293,222
Issuance Costs and Fees	455,179	252,608	-	-	455,179	252,608
Facilities Repair and Maintenance	887,006	1,263,875	-	-	887,006	1,263,875
Contracted Instructional Services Between Schools	1,824,346	1,034,483	-	-	1,824,346	1,034,483
Payments to Juvenile Justice Alternative Education Programs	1,800	1,800	-	-	1,800	1,800
Other Intergovernmental Charges	566,488	561,865	-	-	566,488	561,865
Day Care	-	-	595,349	-	595,349	-
Total Expenses	105,623,611	99,028,838	595,349	583,879	106,218,960	99,612,717
Increase in Net Position before Transfers	388,344	556,157	(256,775)	(253,413)	131,569	302,744
Transfers	(86,545)	(253,413)	256,775	253,413	170,230	-
Change in Net Position	301,799	302,744	-	-	301,799	302,744
Net Position - Beginning (as restated)	53,725,879	53,423,135	-	-	53,725,879	53,423,135
Net Position - Ending	\$ 54,027,678	\$ 53,725,879	\$ -	\$ -	\$ 54,027,678	\$ 53,725,879

Governmental Activities. Governmental activities increased the District's net position by \$301,799.

Revenues are generated primarily from two sources: grants and contributions and property taxes. Grants and contributions (\$29,760,587) represent 28 percent of total revenues and property taxes (\$74,670,102) represent 70 percent of total revenues. The remaining \$1,581,266 is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$57,027,748), which represents 54 percent of total expenses. Plant maintenance and operations (\$8,816,971) represents 8 percent of total expenses. Food service (\$6,462,825) represents 6 percent of total expenses, and interest on long-term debt (\$5,212,862) and school leadership (\$5,545,083) each represent 5 percent of total expenses. The remaining individual functional categories of expenses are each less than 5 percent of total expenses.

Business-type activities. Business-type activities operations had no impact on the District's net position. Revenues increased by \$8,108, or 2 percent, primarily due to the increase of community participation in the daycare. Expenditures increased by \$11,470, or 2 percent, which was related to the increase in community participation.

Financial Analysis of the Government's Funds

As mentioned 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.

At the end of the fiscal year, the District's governmental funds had combined ending fund balances of \$42,225,503, an increase of \$2,794,181 from the prior year.

The general fund is the primary operating fund of the District. At year-end, unassigned fund balance of the general fund was \$14,812,744, while total fund balance was \$17,490,870. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18 percent of total general fund expenditures, while total fund balance represents 22 percent of that same total. The fund balance of the general fund increased \$639,782 during the year, primarily due to the increase in property tax levy due to an increase in appraised values.

The debt service fund had a total fund balance of \$21,773,821, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance increased \$1,579,776 during the year, primarily due to an increase in property tax revenue greater than expenditures for debt payments.

The capital projects fund has a total fund balance of \$1,579,451. The net increase in fund balance during the current year in the capital projects fund was \$327,134, and was due to proceeds from the sale of bonds in excess of current period fund expenditures.

Proprietary Funds. The District's proprietary fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of these funds are addressed in the discussion of the District's business-type activities.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. The general fund local and intermediate revenues budget and instruction expenditures budget were increased related to increased property taxes and increased enrollment, respectively. The state program revenues budget, and plant operation and maintenance and contracted instructional services between schools expenditures budgets, were decreased related to a decrease in state grant funding, less personnel, and change in estimate provided the Texas Education Agency, respectively.

The contracted instructional services between schools expenditure actual amount was greater than the final budget related to revision of the estimate received from the Texas Education Agency, which was the basis for the budgeted amount.

Capital Assets and Long-term Liabilities

Capital Assets. The District's investment in capital assets for its governmental activities and business-type activities as of August 31, 2016 was \$182,810,730 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment, and construction in progress. The decrease in net capital assets for the current fiscal year was \$2,607,661.

SHELDON INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
	Amount	Amount	Amount	Amount	Amount	Amount
Land and Improvements	\$ 5,965,196	\$ 5,965,196	\$ -	\$ -	\$ 5,965,196	\$ 5,965,196
Buildings and Improvements	173,512,887	175,946,498	-	-	173,512,887	175,946,498
Furniture and Equipment	3,332,647	3,506,697	-	-	3,332,647	3,506,697
Totals	\$ 182,810,730	\$ 185,418,391	\$ -	\$ -	\$ 182,810,730	\$ 185,418,391

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-Term Liabilities. At year-end, the District had the following long-term liabilities:

SHELDON INDEPENDENT SCHOOL DISTRICT'S OUTSTANDING LONG-TERM LIABILITIES

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds	\$ 155,864,996	96	\$ 160,339,997	98	\$ (4,475,001)	(3)
Premiums	6,135,683	4	4,057,163	2	2,078,520	51
Accreted interest on capital appreciation bonds	48,010	-	-	-	48,010	-
Totals	\$ 162,048,689	100	\$ 164,397,160	100	\$ (2,348,471)	

The District's total net bonded debt decreased by \$2,348,471 (1 percent) during the current fiscal year, which resulted primarily from bonds matured.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

The following table provides the District's key pension statistics related to the TRS plan as of and for the fiscal year ended August 31, 2016:

SHELDON INDEPENDENT SCHOOL DISTRICT'S KEY PENSION STATISTICS

Net Pension Liability (NPL)	\$ 20,961,902
Pension Expense	\$ 7,812,834

Additional information on the District's net pension liability can be found in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Tax Rates

- School year (2016-17) student enrollment is 8,903, a 9 percent increase from the preceding year.
- District staff totals 1,241 employees in 2016-17, of which 573 are teachers and 237 are teacher aides and secretaries.
- The District maintains 10 campuses for student instruction.
- Property values of the District are projected to increase 4% for the 2016-17 year.
- A maintenance and operations tax rate of \$1.17 and a debt service tax rate of \$.24 (a total rate of \$1.41) were adopted for 2016-17.

All of these factors and others were considered in preparing the District's budget for the 2016-17 fiscal year.

Requests for Information

This financial report is intended to provide a general overview of the District's finances for those with an interest in this information. 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, Texas 77044-7192.

BASIC FINANCIAL STATEMENTS

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016**

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business-type Activities	Total	
ASSETS				
1110	Cash and Cash Equivalents	\$ 5,137,986	\$ 9,600	\$ 5,147,586
1120	Current Investments	29,400,159	-	29,400,159
1220	Property Taxes Receivables	3,859,522	-	3,859,522
1230	Allowance for Uncollectable Taxes	(619,815)	-	(619,815)
1240	Due from Other Governments	2,097,096	-	2,097,096
1260	Internal Balances	1,986	(1,986)	-
1290	Other Receivables	188,333	-	188,333
1300	Inventories	424,113	-	424,113
	Capital Assets, Not Being Depreciated:			
1510	Land and Improvements	5,965,196	-	5,965,196
	Capital Assets, Net of Accumulated Depreciation:			
1520	Buildings and Improvements	173,512,887	-	173,512,887
1530	Furniture and Equipment	3,332,647	-	3,332,647
1810	Restricted Cash and Investments	5,014,075	-	5,014,075
1910	Long-Term Investments	5,379,150	-	5,379,150
1000	Total Assets	233,693,335	7,614	233,700,949
DEFERRED OUTFLOWS OF RESOURCES				
1700	Deferred Charge on Refunding	2,048,569	-	2,048,569
1705	Deferred Outflow - Pension	12,360,572	-	12,360,572
1700	Total Deferred Outflows of Resources	14,409,141	-	14,409,141
	Total Assets and Deferred Outflows of Resources	248,102,476	7,614	248,110,090
LIABILITIES				
2110	Accounts Payable	1,177,465	2,540	1,180,005
2140	Interest Payable	258,863	-	258,863
2150	Payroll Deductions and Withholdings	586,806	-	586,806
2160	Accrued Wages Payable	2,889,086	5,074	2,894,160
2177	Due to Fiduciary Funds	1,900	-	1,900
2180	Due to Other Governments	1,473,642	-	1,473,642
2300	Unearned Revenue	149,347	-	149,347
	Noncurrent Liabilities:			
2501	Due within One Year	6,906,314	-	6,906,314
2502	Due in More Than One Year	155,729,875	-	155,729,875
2540	Net Pension Liability	20,961,902	-	20,961,902
2000	Total Liabilities	190,135,200	7,614	190,142,814
DEFERRED INFLOWS OF RESOURCES				
2605	Deferred Inflow - Pension	3,939,598	-	3,939,598
2600	Total Deferred Inflows of Resources	3,939,598	-	3,939,598
	Total Liabilities and Deferred Inflows of Resources	194,074,798	7,614	194,082,412
NET POSITION				
3200	Net Investment in Capital Assets	24,438,071	-	24,438,071
3820	Restricted for Grants	1,178,644	-	1,178,644
3850	Restricted for Debt Service	21,963,381	-	21,963,381
3900	Unrestricted	6,447,582	-	6,447,582
3000	Total Net Position	\$ 54,027,678	\$ -	\$ 54,027,678

The Notes to Basic Financial Statements are an integral part of these statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT B-1

Data Control Codes	Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
0011	Instruction	\$ 57,027,748	\$ 22,611	\$ 7,612,415	\$ (49,392,722)	\$ -	\$ (49,392,722)
0012	Instructional Resources and Media Services	927,672	-	55,264	(872,408)	-	(872,408)
0013	Curriculum and Instructional Staff Development	158,917	-	6,827	(152,090)	-	(152,090)
0021	Instructional Leadership	3,302,878	-	189,017	(3,113,861)	-	(3,113,861)
0023	School Leadership	5,545,083	-	381,478	(5,163,605)	-	(5,163,605)
0031	Guidance, Counseling, and Evaluation Services	2,437,019	-	581,117	(1,855,902)	-	(1,855,902)
0032	Social Work Services	36,879	-	-	(36,879)	-	(36,879)
0033	Health Services	731,014	-	1,605,241	874,227	-	874,227
0034	Student Transportation	4,271,721	-	190,987	(4,080,734)	-	(4,080,734)
0035	Food Service	6,462,825	762,667	5,659,931	(40,227)	-	(40,227)
0036	Cocurricular/Extracurricular Activities	2,392,478	123,533	51,947	(2,216,998)	-	(2,216,998)
0041	General Administration	2,487,743	-	135,935	(2,351,808)	-	(2,351,808)
0051	Plant Maintenance and Operations	8,816,971	-	310,200	(8,506,771)	-	(8,506,771)
0052	Security and Monitoring Services	781,854	-	11,235	(770,619)	-	(770,619)
0053	Data Processing Services	1,203,255	-	55,971	(1,147,284)	-	(1,147,284)
0061	Community Services	91,873	-	51,438	(40,435)	-	(40,435)
0072	Interest on Long-term Debt	5,212,862	-	430,420	(4,782,442)	-	(4,782,442)
0073	Issuance Costs and Fees	455,179	-	-	(455,179)	-	(455,179)
0081	Facilities Repair and Maintenance	887,006	-	-	(887,006)	-	(887,006)
0091	Contracted Instructional Services Between Schools	1,824,346	-	-	(1,824,346)	-	(1,824,346)
0095	Payments to Juvenile Justice Alternative Education Programs	1,800	-	-	(1,800)	-	(1,800)
0099	Other Intergovernmental Charges	566,488	-	-	(566,488)	-	(566,488)
TG	Total Governmental Activities	105,623,611	908,811	17,329,423	(87,385,377)	-	(87,385,377)
Business-type Activities							
0001	Day Care	595,349	338,574	-	-	(256,775)	(256,775)
TB	Total Business-type Activities	595,349	338,574	-	-	(256,775)	(256,775)
TP	Total Primary Government	\$ 106,218,960	\$ 1,247,385	\$ 17,329,423	(87,385,377)	(256,775)	(87,642,152)
General Revenues							
MT	Property Taxes, Levied for General Purposes				61,972,473	-	61,972,473
DT	Property Taxes, Levied for Debt Services				12,697,629	-	12,697,629
GC	Grants and Contributions Not Restricted to Specific Programs				12,502,856	-	12,502,856
IE	Investment Earnings				324,402	-	324,402
GS	Gain (Loss) on Sale of Capital Asset				23,715	-	23,715
MI	Miscellaneous				252,646	-	252,646
FR	Transfers				(86,545)	256,775	170,230
TR	Total General Revenues and Transfers				87,687,176	256,775	87,943,951
CN	Change in Net Position				301,799	-	301,799
NB	Net Position - Beginning				53,725,879	-	53,725,879
NE	Net Position - Ending				\$ 54,027,678	\$ -	\$ 54,027,678

The Notes to Basic Financial Statements are an integral part of these statements.

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**SHELDON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
AUGUST 31, 2016**

<u>Data Control Codes</u>		<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS			
1110	Cash and Cash Equivalents	\$ 2,723,532	\$ 1,506,251
1120	Current Investments	11,665,996	15,121,440
1220	Property Taxes Receivables	3,095,287	764,235
1230	Allowance for Uncollectable Taxes	(484,245)	(135,570)
1240	Due from Other Governments	1,361,440	-
1260	Due from Other Funds	703,398	5,423
1290	Other Receivables	188,333	-
1300	Inventories	318,361	-
1810	Restricted Cash and Investments	-	5,014,075
1910	Long-term Investments	5,379,150	-
1000	Total Assets	<u>\$ 24,951,252</u>	<u>\$ 22,275,854</u>
LIABILITIES			
2110	Accounts Payable	\$ 653,241	\$ 5,600
2150	Payroll Deductions and Withholdings	586,806	-
2160	Accrued Wages Payable	2,803,381	-
2170	Due to Other Funds	7,323	-
2180	Due to Other Governments	1,473,642	-
2300	Unearned Revenue	53,566	-
2000	Total Liabilities	5,577,959	5,600
DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenues - Property Taxes	1,882,423	496,433
2600	Total Deferred Inflows of Resources	1,882,423	496,433
FUND BALANCES			
Nonspendable			
3410	Inventories	318,361	-
Restricted For:			
3450	Grants	75,124	-
3470	Capital Acquisitions and Contractual Obligations	-	-
3480	Debt Service	-	21,773,821
Committed To:			
3545	Other	-	-
Assigned To:			
3590	Assigned - Other	2,284,611	-
3600	Unassigned	14,812,774	-
3000	Total Fund Balances	<u>17,490,870</u>	<u>21,773,821</u>
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 24,951,252</u>	<u>\$ 22,275,854</u>

The Notes to Basic Financial Statements are an integral part of these statements.

EXHIBIT C-1

<u>Capital Projects Fund</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
\$ 207,299	\$ 700,904	\$ 5,137,986
1,752,595	860,128	29,400,159
-	-	3,859,522
-	-	(619,815)
-	735,656	2,097,096
-	-	708,821
-	-	188,333
-	105,752	424,113
-	-	5,014,075
-	-	5,379,150
<u>\$ 1,959,894</u>	<u>\$ 2,402,440</u>	<u>\$ 51,589,440</u>
\$ 380,339	\$ 138,285	\$ 1,177,465
-	-	586,806
-	85,705	2,889,086
104	701,308	708,735
-	-	1,473,642
-	95,781	149,347
<u>380,443</u>	<u>1,021,079</u>	<u>6,985,081</u>
-	-	2,378,856
-	-	2,378,856
-	105,752	424,113
-	1,103,520	1,178,644
1,579,451	-	1,579,451
-	-	21,773,821
-	172,089	172,089
-	-	2,284,611
-	-	14,812,774
<u>1,579,451</u>	<u>1,381,361</u>	<u>42,225,503</u>
<u>\$ 1,959,894</u>	<u>\$ 2,402,440</u>	<u>\$ 51,589,440</u>

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**SHELDON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
AUGUST 31, 2016**

EXHIBIT C-1R

Total Fund Balances - Governmental Funds (Exhibit C-1) **\$ 42,225,503**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets - at cost	\$ 261,219,842	
Accumulated depreciation	(78,409,112)	182,810,730

Property taxes receivable, which will be collected subsequent to year-end but are not available soon enough to pay expenditures, are deferred in the funds.		2,378,856
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Long-term liabilities, including bonds payable and compensated absences, 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 include:

General obligation bonds	\$ (155,864,996)	
Premiums on bonds	(6,135,683)	
Accreted interest on capital appreciation bonds	(48,010)	
Accrued interest on bonds	(258,863)	
Compensated absences	(587,500)	(162,895,052)

Deferred losses on issuances of refunding bonds are recorded as deferred outflows of resources in the statement of net position. This is the difference between the reacquisition price and the net carrying amount of refunded bonds, net of amortization.		2,048,569
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The District's proportionate share of the Teachers Retirement System net pension liability, deferred outflows of resources, and deferred inflows of resources are recognized in the statement of net position.

Net pension liability	\$ (20,961,902)	
Deferred outflows - pension	12,360,572	
Deferred inflows - pension	(3,939,598)	(12,540,928)

Total Net Position - Governmental Activities (Exhibit A-1) **\$ 54,027,678**

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	General Fund	Debt Service Fund
REVENUES		
5700 Local and Intermediate Sources	\$ 63,374,029	\$ 13,087,259
5800 State Program Revenues	15,829,711	-
5900 Federal Program Revenues	2,003,230	-
5020 Total Revenues	<u>81,206,970</u>	<u>13,087,259</u>
EXPENDITURES		
Current		
0011 Instruction	46,906,889	-
0012 Instructional Resources and Media Services	748,627	-
0013 Curriculum and Instructional Staff Development	151,438	-
0021 Instructional Leadership	3,143,836	-
0023 School Leadership	5,170,186	-
0031 Guidance, Counseling, and Evaluation Services	1,831,115	-
0032 Social Work Services	36,879	-
0033 Health Services	648,014	-
0034 Student Transportation	3,582,657	-
0035 Food Service	-	-
0036 Cocurricular/Extracurricular Activities	1,875,969	-
0041 General Administration	2,351,978	-
0051 Plant Maintenance and Operations	8,416,026	-
0052 Security and Monitoring Services	822,084	-
0053 Data Processing Services	1,066,708	-
0061 Community Services	19,296	-
Debt Service		
0071 Principal on Long-term Debt	600,000	6,320,000
0072 Interest on Long-term Debt	153,863	5,172,485
0073 Issuance Costs and Fees	-	393,029
Capital Outlay		
0081 Facilities Acquisition and Construction	415,929	-
Intergovernmental		
0091 Contracted Instructional Services Between Schools	1,824,346	-
0095 Payments to Juvenile Justice Alternative Education Programs	1,800	-
0099 Other Intergovernmental Charges	566,488	-
6030 Total Expenditures	<u>80,334,128</u>	<u>11,885,514</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	872,842	1,201,745
OTHER FINANCING SOURCES (USES)		
7901 Refunding Bonds Issued	-	37,320,000
7911 Issuance of Capital-related Bonds	-	-
7912 Sale of Real and Personal Property	23,715	-
7915 Transfers In	-	-
7916 Premium or Discount on Issuance of Bonds	-	2,516,750
8911 Transfers Out	(256,775)	-
8940 Payment to Refunded Bonds Escrow Agent	-	(39,458,719)
7080 Total Other Financing Sources (Uses)	<u>(233,060)</u>	<u>378,031</u>
1200 Net Change in Fund Balances	639,782	1,579,776
0100 Fund Balances - Beginning	16,851,088	20,194,045
3000 Fund Balances - Ending	<u>\$ 17,490,870</u>	<u>\$ 21,773,821</u>

The Notes to Basic Financial Statements are an integral part of these statements.

EXHIBIT C-2

Capital Projects Fund	Total Nonmajor Funds	Total Governmental Funds
\$ 6,389	\$ 876,909	\$ 77,344,586
-	1,029,991	16,859,702
-	9,238,990	11,242,220
<u>6,389</u>	<u>11,145,890</u>	<u>105,446,508</u>
-	4,538,533	51,445,422
-	-	748,627
-	7,479	158,917
-	2,711	3,146,547
-	-	5,170,186
-	459,558	2,290,673
-	-	36,879
-	-	648,014
-	-	3,582,657
-	6,042,599	6,042,599
-	-	1,875,969
-	-	2,351,978
-	972	8,416,998
-	-	822,084
-	-	1,066,708
-	16,779	36,075
-	-	6,920,000
-	-	5,326,348
62,150	-	455,179
3,449,255	-	3,865,184
-	-	1,824,346
-	-	1,800
-	-	566,488
<u>3,511,405</u>	<u>11,068,631</u>	<u>106,799,678</u>
(3,505,016)	77,259	(1,353,170)
-	-	37,320,000
3,640,000	-	3,640,000
-	-	23,715
-	170,230	170,230
192,150	-	2,708,900
-	-	(256,775)
-	-	(39,458,719)
<u>3,832,150</u>	<u>170,230</u>	<u>4,147,351</u>
327,134	247,489	2,794,181
1,252,317	1,133,872	39,431,322
<u>\$ 1,579,451</u>	<u>\$ 1,381,361</u>	<u>\$ 42,225,503</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT C-3

Total Net Change in Fund Balances - Governmental Funds (Exhibit C-2) \$ 2,794,181

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Capital outlays	\$ 3,105,931	
Depreciation expense	<u>(5,713,592)</u>	(2,607,661)

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues decreased by this amount this year. (1,177,325)

The issuance of long term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items was:

Issuance of bonds - principal	\$ (40,960,000)	
Premium on issuance of bonds	(2,708,900)	
Payment to escrow agent for advance refunding	39,458,719	
Repayment of bond principal	6,920,000	
Amortization of deferred loss on refunding bonds	(147,577)	
Amortization of premium on bonds payable	289,701	
Accreted interest on capital appreciation bonds	<u>(48,010)</u>	2,803,933

The change in the interest expense accrual amount for the current year from prior year amount was: 19,372

The net change in net pension liability, and pension-related deferred outflows and deferred inflows, is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased	\$ 9,769,335	
Deferred inflows increased	(764,002)	
Net pension liability increased	<u>(10,580,843)</u>	(1,575,510)

The net decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. 44,809

Change in Net Position - Governmental Activities (Exhibit B-1) \$ 301,799

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
AUGUST 31, 2016**

EXHIBIT D-1

<u>Data Control Codes</u>	<u>Enterprise Funds Early Learning Center - Daycare</u>
ASSETS	
Current Assets	
1110 Cash and Cash Equivalents	\$ 9,600
Total Current Assets	<u>9,600</u>
1000 Total Assets	9,600
LIABILITIES	
Current Liabilities	
2110 Accounts Payable	2,540
2160 Accrued Wages Payable	5,074
2170 Due to Other Funds	<u>1,986</u>
Total Current Liabilities	<u>9,600</u>
2000 Total Liabilities	<u>9,600</u>
NET POSITION	
3900 Unrestricted	<u>-</u>
3000 Total Net Position	<u><u>\$ -</u></u>

The Notes to Basic Financial Statements are an integral part of these statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – PROPRIETARY FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT D-2

<u>Data Control Codes</u>	<u>Enterprise Funds Early Learning Center - Daycare</u>
OPERATING REVENUES	
5700 Local and Intermediate Sources	\$ 338,574
5020 Total Operating Revenues	<u>338,574</u>
OPERATING EXPENSES	
6100 Payroll Costs	547,433
6200 Professional and Contracted Services	6,862
6300 Supplies and Materials	13,464
6400 Other Operating Costs	<u>27,590</u>
6030 Total Operating Expenses	<u>595,349</u>
1100 Operating Income (Loss)	(256,775)
TRANSFERS	
7915 Transfers In	256,775
1200 Change in Net Position	-
0100 Total Net Position - Beginning	<u>-</u>
3000 Total Net Position - Ending	<u><u>\$ -</u></u>

The Notes to Basic Financial Statements are an integral part of these statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT D-3

	<u>Enterprise Funds</u> <u>Early Learning</u> <u>Center - Daycare</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 338,574
Cash Payments to Suppliers for Goods and Services	(47,758)
Cash Payments to Employees	(543,591)
	<hr/>
Net Cash Provided (Used) by Operating Activities	(252,775)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from Other Funds	256,775
	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	256,775
Net Increase (Decrease) in Cash and Cash Equivalents	4,000
Cash and Cash Equivalents - Beginning	5,600
	<hr/>
Cash and Cash Equivalents - Ending	\$ 9,600
	<hr/> <hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (256,775)
Change in Assets and Liabilities:	
Decrease in Due from Other Funds	592
Decrease in Accounts Payable	(2,420)
Increase in Accrued Wages Payable	3,842
Increase in Due to Other Funds	1,986
	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (252,775)
	<hr/> <hr/>

The Notes to Basic Financial Statements are an integral part of these statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016**

EXHIBIT E-1

<u>Data Control Codes</u>		810 Private-Purpose Trust Fund Scholarship Fund	865 Agency Funds Student Activity
	ASSETS		
1110	Cash and Cash Equivalents	\$ 67,226	\$ 132,724
1120	Current Investments	188,773	36,104
1260	Due from Other Funds	1,900	-
1000	Total Assets	\$ 257,899	\$ 168,828
	LIABILITIES		
2190	Due to Student Groups	\$ 40,231	\$ 168,828
2000	Total Liabilities	40,231	\$ 168,828
	NET POSITION		
3800	Held in Trust for Private Purposes	217,668	
3000	Total Net Position	\$ 217,668	

The Notes to Basic Financial Statements are an integral part of these statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT E-2

<u>Data Control Codes</u>		810 Private-Purpose Trust Fund
		<u>Scholarship Fund</u>
	ADDITIONS	
5700	Local and Intermediate Sources	\$ 86,005
	Total Additions	86,005
	DEDUCTIONS	
6499	Scholarships	67,800
	Total Deductions	67,800
	Change in Net Position	18,205
	Net Position - Beginning	199,463
	Net Position - Ending	<u>\$ 217,668</u>

SHELDON INDEPENDENT SCHOOL DISTRICT NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sheldon Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the state of Texas. It is governed by a seven member Board of Trustees that is elected by registered voters of the District. The District prepares its basic financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds. The following is a summary of the significant accounting policies of the District.

A. Reporting Entity

The District's Board of Trustees (Board) has governance responsibilities over all activities related to public, elementary and secondary, education within the District. 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; therefore 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.

B. 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. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

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

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-wide and Fund Financial Statements – Continued

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements are presented for each fund category—governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds.

In the fund financial statements, interfund activities between governmental funds and between governmental and proprietary funds appear as *due to other funds* or *due from other funds* on the governmental funds balance sheet and proprietary funds statement of net position and as *transfers in* or *transfers out* on the governmental funds statement of revenues, expenditures and changes in fund balance and on the proprietary funds statement of revenues, expenses, and changes in net position. While these balances are reported in fund financial statements, as a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Balances and transfers between the funds included in governmental activities (i.e., the governmental funds) are eliminated. Internal balances presented on the government-wide statement of net position represent only the net balance between governmental and business-type activities.

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

Measurement focus is the accounting convention which determines which assets and liabilities are included on the balance sheet of a fund type and whether a fund type's operating statement presents "financial flow" or capital maintenance information.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements (with the exception of agency funds which are custodial in nature thus do not have a measurement focus). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amounts.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Accounting

The District's accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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 District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations 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 committed 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 a proprietary fund used to account for the operations of the District's tuition/fee based employee child care program.

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

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Data Control Codes

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

F. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and bank demand or time deposits with original maturities of three months or less from the date of acquisition.

G. Investments

The carrying value of the District's investments approximates fair value. The valuation policies of the District are described in Note 2.

Investments with a maturity of less than one year from August 31, 2016 are reported as current investments. Any investments with longer maturities are reported as long-term investments.

H. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. Taxes are levied by the District's Board based on the appraised values established by the Central Appraisal District of Harris County, Texas. Billing and collection of tax levies are performed by the District.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general fund and debt service fund are based upon historical experience in collecting property taxes. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. 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. Commodity inventory items are recorded as expenditures when distributed to user locations.

J. Capital Assets

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

Land and construction in progress are not depreciated. Buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and Improvements	15-60
Furniture and Equipment	7-25

K. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Deferred Outflows and Deferred Inflows of Resources – Continued

Deferred outflows/inflows of resources are amortized/recognized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

L. Long-Term Obligations

In the government-wide financial statements and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

M. 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.

N. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

O. Fund Balances and Net Position

Net position on the government-wide and proprietary fund statements of net position includes the following categories:

Net investment in capital assets – the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, net of premiums and discounts, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – the component of net position that reports the difference between assets and liabilities with constraints placed on use by law.

Unrestricted – the difference between the assets and liabilities that is not reported in any of the classifications above.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted net position, before unrestricted net position is applied.

Fund balance on the governmental fund balance sheets is classified as follows:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes retirement of long term debt, construction, and federal and state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action in an open meeting of the highest level of decision making authority (i.e. the Board of Trustees). Committed fund balance is established pursuant to resolution passed by the District's Board of Trustees. The same action must be taken to modify or rescind a committed fund balance. At August 31, 2016, the District's committed fund balance includes campus activity funds.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

O. Fund Balances and Net Position – Continued

Assigned – includes fund balance amounts that are self-imposed by the District as intended to be used for a particular purpose. Intent can be expressed by the District's Board, or by an official or body to which the Board delegates authority. The Board has assigned fund balance in the general fund for the following:

State aid adjustments	\$ 750,000
Wealth equalization payments	25,000
Activity fund	9,611
Emergency repairs	<u>1,500,000</u>
	<u><u>\$ 2,284,611</u></u>

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. The general fund should be the only fund that reports a positive unassigned balance. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

P. Use of Estimates

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

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimate as of August 31, 2016 will change, and that change could be material to the District's financial statements.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS

A summary of the District's cash and investments at August 31, 2016, is shown below:

	Cash and Cash Equivalents	Total Investments	Total Cash, Cash Equivalents, and Investments
General Fund	\$ 2,723,532	\$ 17,045,146	\$ 19,768,678
Debt Service Fund	1,506,251	20,135,515	21,641,766
Capital Projects Fund	207,299	1,752,595	1,959,894
Non-major Governmental Funds	700,904	860,128	1,561,032
Total Governmental Funds	<u>5,137,986</u>	<u>39,793,384</u>	<u>44,931,370</u>
Enterprise Fund	9,600	-	9,600
Total Government-wide	<u>5,147,586</u>	<u>39,793,384</u>	<u>44,940,970</u>
Fiduciary Funds	<u>199,950</u>	<u>224,877</u>	<u>424,827</u>
Total	<u>\$ 5,347,536</u>	<u>\$ 40,018,261</u>	<u>\$ 45,365,797</u>
		Current investments \$ 29,625,036	
		Long-term investments 5,379,150	
		Restricted investments 5,014,075	
		<u>Total investments \$ 40,018,261</u>	

Cash Deposits

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

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

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

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Cash Deposits – Continued

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

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

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

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

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

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 Board's 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.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

The District’s investments at August 31, 2016, are shown below:

	Local Government Investment Pools	Money Market Fund	Certificates of Deposit	US Treasury Securities	US Agency Securities	Repurchase agreement	Total
General Fund							
Current investments	\$ 11,452,469	\$ 213,527	\$ -	\$ -	\$ -	\$ -	\$ 11,665,996
Long-term investments	-	-	-	544,314	4,834,836	-	5,379,150
Debt Service Fund							
Current investments	15,121,440	-	-	-	-	-	15,121,440
Restricted investments	-	-	-	-	2,091,878	2,922,197	5,014,075
Capital Projects Fund							
Current investments	1,752,595	-	-	-	-	-	1,752,595
Non-major Funds							
Current investments	860,128	-	-	-	-	-	860,128
Total Governmental Funds	29,186,632	213,527	-	544,314	6,926,714	2,922,197	39,793,384
Fiduciary Funds							
Current investments	-	-	224,877	-	-	-	224,877
Total	\$ 29,186,632	\$ 213,527	\$ 224,877	\$ 544,314	\$ 6,926,714	\$ 2,922,197	\$ 40,018,261

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 securities lending agreements during the fiscal year.

The District is a voluntary participant 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.

Lone Star was created pursuant to the Interlocal Cooperation Act of the State of Texas, Article 4413(32c), Vernon’s Texas Civil Statutes, as amended, and is designed to provide participating local governments with investment vehicles for local funds that may be required for immediate expenditure. Lone Star is governed by an eleven-member Board of Directors all of whom are participants of the pool. The administrator and distributor of Lone Star is First Public, LLC, a Texas limited liability company. Investment advisory services are provided by American Beacon Advisors and Standish Mellon Investment Asset Management Company.

TexSTAR was created in April 2003, also under the Interlocal Cooperation Act. The State Comptroller of Public Accounts exercises responsibility over TexSTAR. TexSTAR is administered by Hilltop Securities, Inc. and J.P. Morgan Investment Management. JPMorgan Investment Management, Inc. provides investment advisory services.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

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 investment pools do not have any limitations or restrictions on withdrawals, such as notice periods or maximum transaction amounts, and do not impose any liquidity fees or redemption gates. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The District's investments are stated at fair value, with the exception of certain investment types which are not required to be measured at fair value. The District classifies its fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which provides a framework for measuring fair value and establishes a three-level hierarchy of inputs that are used in valuation techniques:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's investments which are not required to be measured at fair value include money market funds and certain investment pools which are measured at amortized cost, and other investment pools which are measured at the net asset value determined by the pool, which approximates fair value, and investments in repurchase agreements and nonnegotiable certificates of deposit which are measured at cost. These instruments are exempt from categorization within the fair value hierarchy.

The value of the District's investments in local government investment pools, TexSTAR and Lone Star, are the same as the value of the pool shares. The District's carrying value of these investments is based on the valuation policy of the investment pool; either at amortized cost or net asset value of the underlying pool shares.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

Lone Star investment pool’s investment portfolio is measured at amortized cost; therefore the District’s investment is measured at amortized cost. TexSTAR’s investment portfolio is measured at fair value; therefore the District’s investment is measured at the net asset value of the pool shares. Both of these measurements approximate fair value.

The following table includes the portfolio valuation, weighted average maturity, credit rating and percentage of the portfolio balance by investment type of the District as of August 31, 2016:

	Value at August 31, 2016	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk (Moody's Rating)
Investments measured at amortized cost							
Local Government Investment Pools							
Lone Star	\$ 28,400,458				70.97%	27	AAAm
Money Market Fund	213,527				0.53%	1	N/A
Investments measured at net asset value							
Local Government Investment Pools							
TexSTAR	786,174				1.96%	39	AAAm
Investments measured at cost							
Repurchase agreement	2,922,197				7.30%		A-1
Certificates of Deposit	224,877				0.56%	134	N/A
Investments measured at fair value							
US Treasury Securities	544,314	544,314	-	-	1.36%	776	Aaa
US Agency Securities							
MBS	941,010	-	941,010	-	2.35%	2,197	Aaa
CMO	3,376,738	-	3,376,738	-	8.44%	4,764	Aaa
CMBS	107,309	-	107,309	-	0.27%	6,235	Aaa
Agency	2,501,656	-	2,501,656	-	6.25%	163	Aaa
Total	<u>\$ 40,018,260</u>	<u>\$ 544,314</u>	<u>\$ 6,926,713</u>	<u>\$ -</u>	<u>100.00%</u>	<u>552</u>	
Portfolio Weighted Average Maturity							

The District’s investments classified within Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

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 and diversification. In addition, the District shall not directly invest in an individual security maturing more than five years 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. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. During the year ended August 31, 2016, the District was not significantly exposed to 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.

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.

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's investments in government investment pools, money market funds, certificates of deposit, and US Treasury and Agency securities 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 because the underlying securities are held by the investments' counterparty, not in the name of the District.

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. 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, 2016, the fair market value of the pledged securities was \$3,091,786.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

Termination Risk

If the rating assigned to the senior unsecured long-term debt obligation of the counterparty to the District’s repurchase agreement 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, 2016, the credit rating assigned to the counterparty is “A2” by Moody’s and “A-” by Fitch.

NOTE 3. RECEIVABLES

Net receivables, at August 31, 2016, consist of the following:

	General Fund	Debt Service	Nonmajor Funds	Total
Property taxes	\$ 3,095,287	\$ 764,235	\$ -	\$ 3,859,522
Due from other governments:				
State	38,859	-	735,656	774,515
Federal	1,322,581	-	-	1,322,581
Other receivables	188,333	-	-	188,333
Gross receivables	4,645,060	764,235	735,656	6,144,951
Less allowance for uncollectibles - Property taxes	(484,245)	(135,570)	-	(619,815)
Total receivables, net	<u>\$ 4,160,815</u>	<u>\$ 628,665</u>	<u>\$ 735,656</u>	<u>\$ 5,525,136</u>

The District expects to collect all significant receivables within one year.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. 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 other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

Interfund balances at August 31, 2016 consisted of the following individual fund balances:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 703,398	\$ 7,323
Debt Service Fund	5,423	-
Capital Projects Fund	-	104
Nonmajor Governmental Funds	-	701,308
Total Governmental Funds	<u>708,821</u>	<u>708,735</u>
Proprietary Funds:		
Enterprise Fund	-	1,986
Total Proprietary Funds	-	1,986
Fiduciary Funds:		
Scholarship Fund	1,900	-
Total Fiduciary Funds	<u>1,900</u>	<u>-</u>
Total - All Funds	<u>\$ 710,721</u>	<u>\$ 710,721</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” During the fiscal year ended August 31, 2016, the District made a transfer of \$256,775 from the general fund to the proprietary fund to cover an operating deficit associated with the Early Learning Center Daycare. Also during the fiscal year ended August 31, 2016, the District transferred \$170,230 of campus activity resources from the agency fund to a special revenue fund.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. CAPITAL ASSETS

A summary of changes in capital assets for the year ended August 31, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 5,965,196	\$ -	\$ -	\$ 5,965,196
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	5,965,196	-	-	5,965,196
Capital Assets, being depreciated:				
Buildings and improvements	240,611,898	2,492,746	-	243,104,644
Furniture and equipment	11,690,473	613,185	(153,656)	12,150,002
Total capital assets, being depreciated	252,302,371	3,105,931	(153,656)	255,254,646
Less accumulated depreciation for:				
Buildings and improvements	(64,665,400)	(4,926,357)	-	(69,591,757)
Furniture and equipment	(8,183,776)	(787,235)	153,656	(8,817,355)
Total accumulated depreciation	(72,849,176)	(5,713,592)	153,656	(78,409,112)
Total capital assets, being depreciated, net	179,453,195	(2,607,661)	-	176,845,534
Governmental Activities Capital Assets, net	<u>\$ 185,418,391</u>	<u>\$ (2,607,661)</u>	<u>\$ -</u>	<u>\$ 182,810,730</u>

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

Function	Amount
11 Instruction	\$ 3,395,816
12 Instructional Resources and Media Services	152,052
21 Instructional Leadership	50,684
23 School Leadership	152,052
31 Guidance, Counseling, and Evaluation Services	50,684
33 Health Services	50,684
34 Student Transportation	566,962
35 Food Service	446,752
36 Cocurricular/Extracurricular Activities	488,860
41 General Administration	50,684
51 Plant Maintenance and Operations	257,678
53 Data Processing Services	50,684
Total depreciation expense - governmental activities	<u>\$ 5,713,592</u>

The District did not have any active construction projects as of August 31, 2016.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM LIABILITIES AND DEBT SERVICE REQUIREMENTS

Long-term liability activity for the year ended August 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 160,339,997	\$ 40,960,000	\$ (45,435,001)	\$ 155,864,996	\$ 6,445,000
Premiums/discounts	4,057,163	2,708,900	(630,380)	6,135,683	332,487
Accreted interest on capital appreciation bonds	-	48,010	-	48,010	11,327
Total bonds payable, net	164,397,160	43,716,910	(46,065,381)	162,048,689	6,788,814
Compensated absences	632,309	158,553	(203,362)	587,500	117,500
	<u>\$ 165,029,469</u>	<u>\$ 43,875,463</u>	<u>\$ (46,268,743)</u>	<u>\$ 162,636,189</u>	<u>\$ 6,906,314</u>

Bonds are payable solely from future revenues of the debt service fund, which consists principally of property taxes collected by the District. Other long-term liabilities are generally liquidated with resources of the general fund.

Bonded debt payable as of August 31, 2016 is as follows:

Series	Interest Rate	Maturity Date	Original Issue Amount	Beginning Balance	Additions	Reductions	Ending Balance
Unlimited Tax School Building Bonds, Series 2005	0.00%	2020	\$ 3,000,000	\$ 3,000,000	\$ -	\$ -	\$ 3,000,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	8,200,000	4,030,000	-	(600,000)	3,430,000
Refunding Bonds, Series 2007	4.500% to	2037	51,972,818	39,975,002	-	(39,975,002)	-
Unlimited Tax School Building Bonds, Series 2008	4.000% to 5.000%	2038	17,400,000	15,515,000	-	(375,000)	15,140,000
Unlimited Tax Refunding Bonds, Series 2009	2.750% to 3.125%	2019	6,074,817	2,680,000	-	(645,000)	2,035,000
Unlimited Tax Refunding Bonds, Series 2010	4.000% to 4.500%	2027	19,114,997	15,654,999	-	(1,064,999)	14,590,000
Unlimited Qualified School Construction Bonds, Series 2010	5.632%	2027	8,200,000	8,200,000	-	-	8,200,000
Unlimited Tax School Building Bonds, Series 2010A	2.000% to 4.000%	2040	8,804,450	8,350,000	-	(290,000)	8,060,000
Unlimited Tax School Building Bonds, Series 2011	3.000% to 5.000%	2041	6,000,000	5,630,000	-	(105,000)	5,525,000
Unlimited Tax Refunding Bonds, Series 2011	2.125% to 3.000%	2028	3,559,996	3,264,996	-	(65,000)	3,199,996
Unlimited Tax School Building and Refunding Bonds, Series 2012	1.000% to 3.000%	2032	9,465,000	9,045,000	-	(160,000)	8,885,000
Unlimited Tax School Building and Refunding Bonds, Series 2013	2.000% to 3.500%	2043	20,295,000	19,680,000	-	(545,000)	19,135,000
Unlimited Tax School Building and Refunding Bonds, Series 2014	2.000% to 4.000%	2039	9,750,000	9,410,000	-	(315,000)	9,095,000
Unlimited Tax School Building and Refunding Bonds, Series 2015	3.000% to 5.000%	2040	16,040,000	15,905,000	-	(420,000)	15,485,000
Unlimited Tax School Building and Refunding Bonds, Series 2016	3.000% to 5.000%	2040	40,960,000	-	40,960,000	(875,000)	40,085,000
				<u>\$ 160,339,997</u>	<u>\$ 40,960,000</u>	<u>\$ (45,435,001)</u>	<u>\$ 155,864,996</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM LIABILITIES AND DEBT SERVICE REQUIREMENTS – CONTINUED

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending August 31	Principal	Interest	Total
2017	\$ 6,445,000	\$ 5,732,215	\$ 12,177,215
2018	6,690,000	5,481,527	12,171,527
2019	6,940,000	5,220,202	12,160,202
2020	10,245,000	4,934,405	15,179,405
2021	7,555,000	4,632,508	12,187,508
2022-2026	38,275,000	18,769,267	57,044,267
2027-2031	37,144,996	10,848,319	47,993,315
2032-2036	28,415,000	5,324,856	33,739,856
2037-2041	12,950,000	1,110,966	14,060,966
2042-2043	1,205,000	42,613	1,247,613
	<u>\$ 155,864,996</u>	<u>\$ 62,096,878</u>	<u>\$ 217,961,874</u>

At August 31, 2016, the District had \$288,600,000 in authorized but unissued bonds.

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 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 in 2020, and 2027, respectively. The Districts accounts for these trust accounts as restricted cash and 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, 2016:

Series	Restricted Cash and Temporary Investments	Maturity Date	Maturity Amount
Unlimited Tax School Building Bonds, Series 2005	\$ 2,091,878	2020	\$ 3,000,000
Unlimited Qualified School Construction Bonds, Series 2010	2,922,197	2027	8,200,000
	<u>\$ 5,014,075</u>		<u>\$ 11,200,000</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM LIABILITIES AND DEBT SERVICE REQUIREMENTS – CONTINUED

Advance Refunding

In December 2015, the District issued \$40,960,000 in Unlimited Tax School Building and Refunding Bonds (Series 2016), with interest rates ranging from 3.00 percent to 5.00 percent, to be used for the construction, acquisition, and equipment of school buildings in the District and to advance refund \$38,515,000 of outstanding 2007 series bonds with an average interest rate of 4.874 percent. The net proceeds of approximately \$39.5 million (including a premium on issuance of approximately \$2.7 million and after \$3.77 million deposited to the capital projects fund and payment of approximately \$436,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded 2007 series bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$603,040. This difference, reported in the accompanying government-wide statement of net position as a deferred outflow of resources, is being charged to operations through the year 2037 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 22 years by approximately \$9.9 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$7.4 million.

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, 2016, all of previously refunded debt has been retired.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

Revenues from local and intermediate sources in the governmental funds consisted of the following:

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total
Property taxes	\$62,932,363	\$12,915,064	\$ -	\$ -	\$75,847,427
Investment income	143,299	172,195	6,389	2,519	324,402
Co-curricular student activities	123,533	-	-	100,397	223,930
Food sales	-	-	-	762,667	762,667
Other	174,834	-	-	11,326	186,160
	<u>\$63,374,029</u>	<u>\$13,087,259</u>	<u>\$ 6,389</u>	<u>\$ 876,909</u>	<u>\$77,344,586</u>

NOTE 8. DEFINED BENEFIT PENSION PLAN

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Contributions – Continued

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Employers/Non-Employer Contribution Entity (State)	6.8%	6.8%
Employer #1492 - 2016 Employer (District) Contributions		\$ 1,832,559
Employer #1492 - 2016 Member Contributions		4,092,336
Employer #1492 - 2016 NECE On-behalf Contributions (State)		2,590,344

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Contributions – Continued

- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2015
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected investment rate of return	8.00%
Inflation	2.50%
Salary increases including inflation	3.5% to 9.5%
Payroll growth rate	2.50%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Discount Rate – Continued

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in TRS' target asset allocation as of August 31, 2015 are summarized in the following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns*</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Development	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	<u>5.0%</u>	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			<u>1.0%</u>
Totals	<u>100.0%</u>		<u>8.7%</u>

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$ 32,843,350	\$ 20,961,902	\$ 11,065,395

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$20,961,902 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 20,961,902
State's proportionate share that is associated with the District	30,914,126
Total	\$ 51,876,028

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.05930% which was an increase of 0.02044% from its proportion measured as of August 31, 2014.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

Changes Since the Prior Actuarial Valuation

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

Other Demographic Assumptions – Continued

11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2016, the District recognized pension expense and revenue of \$4,404,765 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 133,521	\$ 805,585
Changes in actuarial assumptions	561,192	747,829
Difference between projected and actual investment earnings	5,162,450	2,379,656
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	4,670,850	6,528
Contributions paid to TRS subsequent to the measurement date	1,832,559	-
Total	\$ 12,360,572	\$ 3,939,598

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

\$1,832,559 reported as deferred outflows related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 2017.

The net amounts of the employer's other balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending August 31	
2017	\$ 1,164,946
2018	1,164,946
2019	1,164,946
2020	1,958,164
2021	659,227
Thereafter	476,187
Total	\$ 6,588,416

NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

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

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN – CONTINUED

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the following table for fiscal years 2016–2014.

Contribution Rates and Contribution Amounts						
Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$ 369,447	1.00%	\$ 531,261	0.55%	\$ 349,728
2015	0.65%	\$ 353,750	1.00%	\$ 244,896	0.55%	\$ 336,325
2014	0.65%	\$ 323,824	1.00%	\$ 224,179	0.55%	\$ 308,838

The Medicare Prescription Drug, Improvement, and Modernization act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Medicare Part D allows for TRS-Care to receive 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, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$216,534, \$218,944, and \$130,978, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

NOTE 10. LITIGATION AND OTHER CONTINGENCIES

The District is a party to various legal actions, none of which is believed by the administration or its legal counsel to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying basic financial statements for such contingencies.

The District participates in a number of federal and state financial assistance programs. These programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. 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.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 11. SUBSEQUENT EVENTS

In September 2016, the District sold \$50,310,000 in Unlimited Tax School Building and Refunding Bonds, Series 2016A. Proceeds from the sale of the bonds are to be used for the construction, renovation and equipment of school buildings, the acquisition of necessary sites for school buildings in the District, the purchase of school buses and technology, refunding of \$14,745,000 of Series 2008 Unlimited Tax School Building Bonds, and paying the costs of issuing the bonds.

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REQUIRED SUPPLEMENTARY INFORMATION

**SHELDON INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT G-1

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and Intermediate Sources	\$ 60,107,470	\$ 62,404,360	\$ 63,374,029	\$ 969,669
5800	State Program Revenues	17,575,237	16,495,251	15,829,711	(665,540)
5900	Federal Program Revenues	1,360,000	1,385,000	2,003,230	618,230
5020	Total Revenues	79,042,707	80,284,611	81,206,970	922,359
EXPENDITURES					
Current					
0011	Instruction	45,936,652	47,876,910	46,906,889	970,021
0012	Instructional Resources and Media Services	763,371	792,724	748,627	44,097
0013	Curriculum and Instructional Staff Development	186,696	186,042	151,438	34,604
0021	Instructional Leadership	3,046,890	3,298,705	3,143,836	154,869
0023	School Leadership	5,139,949	5,259,813	5,170,186	89,627
0031	Guidance, Counseling, and Evaluation Services	1,771,285	1,913,485	1,831,115	82,370
0032	Social Work Services	37,000	37,000	36,879	121
0033	Health Services	650,449	689,313	648,014	41,299
0034	Student Transportation	4,044,218	4,026,119	3,582,657	443,462
0036	Cocurricular/Extracurricular Activities	1,895,221	1,987,791	1,875,969	111,822
0041	General Administration	2,587,082	2,569,289	2,351,978	217,311
0051	Plant Maintenance and Operations	10,975,220	9,213,614	8,416,026	797,588
0052	Security and Monitoring Services	953,850	927,850	822,084	105,766
0053	Data Processing Services	1,028,881	1,134,400	1,066,708	67,692
0061	Community Services	29,000	36,561	19,296	17,265
Debt Service					
0071	Principal on Long-term Debt	600,000	600,000	600,000	-
0072	Interest on Long-term Debt	153,865	153,865	153,863	2
Capital Outlay					
0081	Facilities Acquisition and Construction	1,469,341	802,350	415,929	386,421
Intergovernmental					
0091	Contracted Instructional Services Between Schools	1,839,465	1,112,465	1,824,346	(711,881)
0095	Payments to Juvenile Justice Alternative Education Programs	30,000	30,000	1,800	28,200
0099	Other Intergovernmental Charges	582,000	582,000	566,488	15,512
6030	Total Expenditures	83,720,435	83,230,296	80,334,128	2,896,168
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,677,728)	(2,945,685)	872,842	3,818,527
OTHER FINANCING SOURCES (USES)					
7912	Sale of Real and Personal Property	-	55,000	23,715	(31,285)
7949	Other resources	-	2,700	-	(2,700)
8911	Transfers Out	(200,000)	(200,000)	(256,755)	(56,755)
7080	Total Other Financing Sources (Uses)	(200,000)	(142,300)	(233,040)	(90,740)
1200	Net Change in Fund Balance	(4,877,728)	(3,087,985)	639,802	3,727,787
0100	Fund Balance - Beginning	16,851,088	16,851,088	16,851,088	-
3000	Fund Balance - Ending	\$ 11,973,360	\$ 13,763,103	\$ 17,490,890	\$ 3,727,787

See Notes to the Required Supplementary Information

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016***

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability	0.05930%	0.03889%
District's Proportionate Share of the Net Pension Liability	\$ 20,961,902	\$ 10,381,059
State's Proportionate Share of the Net Pension Liability Associated with the District	<u>30,914,126</u>	<u>25,647,821</u>
Total	<u>\$ 51,876,028</u>	<u>\$ 36,028,880</u>
District's Covered-Employee Payroll	\$ 54,422,769	\$ 49,819,013
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	38.52%	20.84%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

* The amounts presented for the fiscal year were determined as of the Plan's fiscal year end, August 31, of the prior year.
Ten years of data is not available.

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016***

EXHIBIT G-3

	<u>2016</u>	<u>2015</u>
Contractually Required Contributions	\$ 1,832,559	\$ 1,755,911
Contributions in Relation to the Contractually Required Contributions	<u>(1,832,559)</u>	<u>(1,755,911)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 56,838,001	\$ 54,422,769
Contribution as a Percentage of Covered- Employee Payroll	3.22%	3.23%

* The amounts presented for the fiscal year were determined as of the District's fiscal year end August 31.
Ten years of data is not available.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. 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, 2016.

For the year ended August 31, 2016, expenditures exceeded appropriations at the function level (the legal level of budgetary control) for the following:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	91 - Contracted Instructional Services Between Schools	\$ 1,112,465	\$1,824,346	\$(711,881)

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 20, 2015. 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.

**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 2. PENSIONS

Changes of benefit terms. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions. New actuarial assumptions were adopted by the Teacher Retirement System of Texas' Board of Trustees on September 24, 2015 and are effective with the valuation as of August 31, 2015. The major assumptions changes were the adoption of the use of generational mortality for the purpose of predicting future mortality improvement and the reduction in the inflation rate from 3.00% to 2.50%.

SUPPLEMENTARY INFORMATION

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**SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
AUGUST 31, 2016**

<u>Data Control Codes</u>	211	224	225	240
	ESEA, Title I, Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool	National School Breakfast & Lunch Program
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 430,001
1120 Current Investments	-	-	-	860,128
1240 Due from Other Governments	125,390	118,751	-	206,991
1300 Inventories	-	-	-	105,752
1000 Total Assets	<u>\$ 125,390</u>	<u>\$ 118,751</u>	<u>\$ -</u>	<u>\$ 1,602,872</u>
LIABILITIES				
2110 Accounts Payable	\$ 7,223	\$ -	\$ -	\$ 109,463
2160 Accrued Wages Payable	-	-	-	85,705
2170 Due to Other Funds	118,167	118,751	-	151,954
2300 Unearned Revenue	-	-	-	48,422
2000 Total Liabilities	<u>125,390</u>	<u>118,751</u>	<u>-</u>	<u>395,544</u>
FUND BALANCES				
Nonspendable				
3410 Inventories	-	-	-	105,752
Restricted For				
3450 Grants	-	-	-	1,101,576
Committed To				
3545 Other	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,207,328</u>
4000 Total Liabilities and Fund Balances	<u>\$ 125,390</u>	<u>\$ 118,751</u>	<u>\$ -</u>	<u>\$ 1,602,872</u>

EXHIBIT H-1
Page 1 of 2

244	255	263	265	273	289
Career and Technical - Basic Grant	ESEA, Title II, Part A,: Teacher & Principal Training & Recruiting	Title III, Part A, English Language Acquisition & Enhancement	21st Century Grant	Math and Science Partnerships	Title VI, Part A, Summer School LEP
\$ -	\$ -	\$ -	\$ 5,719	\$ -	\$ -
-	-	-	-	-	-
11,802	59,005	29,248	81,010	94,451	4,280
-	-	-	-	-	-
<u>\$ 11,802</u>	<u>\$ 59,005</u>	<u>\$ 29,248</u>	<u>\$ 86,729</u>	<u>\$ 94,451</u>	<u>\$ 4,280</u>
\$ -	\$ 5,555	\$ 15,794	\$ 250	\$ -	\$ -
-	-	-	-	-	-
11,802	53,450	13,454	86,479	94,451	4,280
-	-	-	-	-	-
11,802	59,005	29,248	86,729	94,451	4,280
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 11,802</u>	<u>\$ 59,005</u>	<u>\$ 29,248</u>	<u>\$ 86,729</u>	<u>\$ 94,451</u>	<u>\$ 4,280</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
AUGUST 31, 2016**

	397	410	411	461
<u>Data Control Codes</u>	<u>Advanced Placement Incentives</u>	<u>State Textbook Fund</u>	<u>Technology Allotment</u>	<u>Campus Activity Fund</u>
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ 89,456	\$ -	\$ 172,089
1120 Current Investments	-	-	-	-
1240 Due from Other Governments	-	-	4,728	-
1300 Inventories	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ 89,456</u>	<u>\$ 4,728</u>	<u>\$ 172,089</u>
LIABILITIES				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2170 Due to Other Funds	-	42,097	4,728	-
2300 Unearned Revenue	-	47,359	-	-
2000 Total Liabilities	-	89,456	4,728	-
FUND BALANCES				
Nonspendable				
3410 Inventories	-	-	-	-
Restricted For				
3450 Grants	-	-	-	-
Committed To				
3545 Other	-	-	-	172,089
3000 Total Fund Balances	-	-	-	172,089
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 89,456</u>	<u>\$ 4,728</u>	<u>\$ 172,089</u>

465	481	482	
<u>Pass Grant (ECHS)</u>	<u>Houston A+ Challenge</u>	<u>Summer College Readiness</u>	<u>Total Nonmajor Funds (See Exhibit C-1)</u>
\$ 1,254	\$ 643	\$ 1,742	\$ 700,904
-	-	-	860,128
-	-	-	735,656
-	-	-	105,752
<u>\$ 1,254</u>	<u>\$ 643</u>	<u>\$ 1,742</u>	<u>\$ 2,402,440</u>
\$ -	\$ -	\$ -	\$ 138,285
-	-	-	85,705
-	550	1,145	701,308
-	-	-	95,781
<u>-</u>	<u>550</u>	<u>1,145</u>	<u>1,021,079</u>
-	-	-	105,752
1,254	93	597	1,103,520
-	-	-	172,089
<u>1,254</u>	<u>93</u>	<u>597</u>	<u>1,381,361</u>
<u>\$ 1,254</u>	<u>\$ 643</u>	<u>\$ 1,742</u>	<u>\$ 2,402,440</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	211	224	225	240
	ESEA, Title I, Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool	National School Breakfast & Lunch Program
REVENUES				
5700 Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 776,512
5800 State Program Revenues	-	-	-	135,913
5900 Federal Program Revenues	1,611,373	1,303,006	13,010	5,211,842
5020 Total Revenues	1,611,373	1,303,006	13,010	6,124,267
EXPENDITURES				
Current				
0011 Instruction	1,594,594	839,808	13,010	-
0013 Curriculum and Instructional Staff Development	-	1,629	-	-
0021 Instructional Leadership	-	2,011	-	-
0031 Guidance, Counseling, and Evaluation Services	-	459,558	-	-
0035 Food Service	-	-	-	6,042,599
0051 Plant Maintenance and Operations	-	-	-	-
0061 Community Services	16,779	-	-	-
6030 Total Expenditures	1,611,373	1,303,006	13,010	6,042,599
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	81,668
OTHER FINANCING SOURCES (USES)				
7915 Transfers In	-	-	-	-
7080 Total Other Financing Sources	-	-	-	-
1200 Net Change in Fund Balances	-	-	-	81,668
0100 Fund Balances - Beginning	-	-	-	1,125,660
3000 Fund Balances - Ending	\$ -	\$ -	\$ -	\$ 1,207,328

244	255	263	265	273	289
Career and Technical - Basic Grant	ESEA, Title II, Part A, Teacher & Principal Training & Recruiting	Title III, Part A, English Language Acquisition & Enhancement	21st Century Grant	Math and Science Partnerships	Title VI, Part A, Summer School LEP
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
94,408	143,072	251,114	480,495	100,670	30,000
<u>94,408</u>	<u>143,072</u>	<u>251,114</u>	<u>480,495</u>	<u>100,670</u>	<u>30,000</u>
94,408	143,072	251,114	479,523	100,670	30,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	972	-	-
-	-	-	-	-	-
<u>94,408</u>	<u>143,072</u>	<u>251,114</u>	<u>480,495</u>	<u>100,670</u>	<u>30,000</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016**

	397	410	411	461
Data Control Codes	Advanced Placement Incentives	State Textbook Fund	Technology Allotment	Campus Activity Fund
REVENUES				
5700 Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 100,397
5800 State Program Revenues	5,850	866,696	21,532	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>5,850</u>	<u>866,696</u>	<u>21,532</u>	<u>100,397</u>
EXPENDITURES				
Current				
0011 Instruction	-	865,996	21,532	98,538
0013 Curriculum and Instructional Staff Development	5,850	-	-	-
0021 Instructional Leadership	-	700	-	-
0031 Guidance, Counseling, and Evaluation Services	-	-	-	-
0035 Food Service	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>5,850</u>	<u>866,696</u>	<u>21,532</u>	<u>98,538</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	1,859
OTHER FINANCING SOURCES (USES)				
7915 Transfers In	-	-	-	170,230
7080 Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>170,230</u>
1200 Net Change in Fund Balances	-	-	-	172,089
0100 Fund Balances - Beginning	-	-	-	-
3000 Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,089</u>

465	481	482	
Pass Grant (ECHS)	Houston A+ Challenge	Summer College Readiness	Total Nonmajor Funds (See Exhibit C-2)
\$ -	\$ -	\$ -	\$ 876,909
-	-	-	1,029,991
-	-	-	9,238,990
-	-	-	11,145,890
1,454	2,119	2,695	4,538,533
-	-	-	7,479
-	-	-	2,711
-	-	-	459,558
-	-	-	6,042,599
-	-	-	972
-	-	-	16,779
1,454	2,119	2,695	11,068,631
(1,454)	(2,119)	(2,695)	77,259
-	-	-	170,230
-	-	-	170,230
(1,454)	(2,119)	(2,695)	247,489
2,708	2,212	3,292	1,133,872
\$ 1,254	\$ 93	\$ 597	\$ 1,381,361

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2016**

Year Ended August 31	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2007 and prior	\$ Various	\$ Various	\$ Various
2008	1.0400	0.3900	3,262,365,274
2009	1.0400	0.3900	3,383,408,252
2010	1.0400	0.3900	3,449,039,580
2011	1.0400	0.3900	3,243,212,098
2012	1.0900	0.3400	3,505,474,406
2013	1.0900	0.3400	3,638,719,292
2014	1.1700	0.2600	4,861,681,259
2015	1.1700	0.2600	4,931,143,966
2016	1.1700	0.2400	5,438,701,915
1000 Totals			

EXHIBIT J-1

<u>Beginning Balance 9/1/2015</u>	<u>Current Year's Total Levy</u>	<u>Maintenance Collections</u>	<u>Debt Service Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/2016</u>
\$ 360,588	\$ -	\$ 19,900	\$ 2,712	\$ (202,083)	\$ 135,893
54,317	-	4,321	1,620	(294)	48,082
75,565	-	8,479	3,180	(292)	63,614
155,502	-	9,878	3,704	(292)	141,628
169,135	-	10,658	3,997	625	155,105
171,118	-	31,842	9,932	14,432	143,776
173,493	-	46,663	14,555	15,232	127,507
289,512	-	123,127	27,361	153	139,177
1,945,820	-	450,193	100,043	(1,021,815)	373,769
-	76,685,697	61,779,556	12,672,730	(880,384)	1,353,027
<u>\$ 3,395,050</u>	<u>\$ 76,685,697</u>	<u>\$ 62,484,617</u>	<u>\$ 12,839,834</u>	<u>\$ (2,074,718)</u>	<u>\$ 2,681,578</u>
					<u>1,177,944</u>
				Penalty and interest receivable on taxes	<u>1,177,944</u>
				Total taxes receivable per Exhibit C-1	<u><u>\$ 3,859,522</u></u>

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT J-2

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and Intermediate Sources	\$ 819,641	\$ 830,941	\$ 776,512	\$ (54,429)
5800	State Program Revenues	132,512	137,512	135,913	(1,599)
5900	Federal Program Revenues	4,994,818	5,394,818	5,211,842	(182,976)
5020	Total Revenues	5,946,971	6,363,271	6,124,267	(239,004)
EXPENDITURES					
Current					
0035	Food Service	5,946,971	6,363,271	6,042,599	320,672
6030	Total Expenditures	5,946,971	6,363,271	6,042,599	320,672
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	81,668	81,668
OTHER FINANCING SOURCES (USES)					
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balance	-	-	81,668	81,668
0100	Fund Balance - Beginning	1,125,660	1,125,660	1,125,660	-
3000	Fund Balance - Ending	\$ 1,125,660	\$ 1,125,660	\$ 1,207,328	\$ 81,668

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT J-3

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and Intermediate Sources	\$ 12,219,200	\$ 12,955,670	\$ 13,087,259	\$ 131,589
5020	Total Revenues	12,219,200	12,955,670	13,087,259	131,589
EXPENDITURES					
Current:					
Debt Service					
0071	Principal on Long-term Debt	6,086,886	7,284,069	6,320,000	964,069
0072	Interest on Long-term Debt	6,146,601	7,117,574	5,172,485	1,945,089
0073	Issuance Costs and Fees	150,000	400,000	393,029	6,971
6030	Total Expenditures	12,383,487	14,801,643	11,885,514	2,916,129
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(164,287)	(1,845,973)	1,201,745	3,047,718
OTHER FINANCING SOURCES (USES)					
7901	Refunding Bonds Issued	-	37,840,000	37,320,000	(520,000)
7916	Premium or Discount on Issuance of Bonds	-	3,465,973	2,516,750	(949,223)
8940	Payment to Refunded Bonds Escrow Agent	-	(39,460,000)	(39,458,719)	1,281
7080	Total Other Financing Sources (Uses)	-	1,845,973	378,031	(1,467,942)
1200	Net Change in Fund Balance	(164,287)	-	1,579,776	1,579,776
0100	Fund Balance - Beginning	20,194,045	20,194,045	20,194,045	-
3000	Fund Balance - Ending	\$ 20,029,758	\$ 20,194,045	\$ 21,773,821	\$ 1,579,776



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 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 17, 2017.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
January 17, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2016. 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 federal statutes, regulations, contracts, and the terms of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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, 2016.

To the Board of Trustees
Sheldon Independent School District

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 as a basis for designing 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Houston, Texas
January 17, 2017

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major federal programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Type of auditor's report issued on compliance for major federal programs:	<u>unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Identification of major federal programs:		
10.553	School Breakfast Program	
10.555	National School Lunch Program	
10.559	Summer Food Service Program	
Dollar threshold used to distinguish between type A and type B programs:	\$ <u>750,000</u>	
Auditee qualified as a low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016**

SECTION II – FINANCIAL STATEMENT FINDINGS

NONE

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

SECTION IV – SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

NONE

**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT K-1

<u>Fund</u>	<u>Federal Grantor/ Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Passed Through Texas Education Agency:				
211	ESEA Title I, Improving Basic Programs	84.010A	16610101101924	\$ 1,611,373
224 *	IDEA - Part B, Formula	84.027A	166600011019246600	1,303,006
225 *	IDEA - Part B, Preschool	84.173A	166610011019246610	13,010
244	Career and Technology - Carl D. Perkins Basic Grant	84.048A	16420006101924	94,408
273	Math and Science Partnerships	84.336B	156944187110018	100,670
263	Title III, Part A - LEP	84.365A	16671001101924	251,114
255	ESEA Title II, Part A - Teacher/Principal Training and Recruiting	84.367A	16694501101924	143,072
199	Summer School LEP	84.369A	69551602	15,144
	Total Passed Through Texas Education Agency			3,531,797
Passed Through Harris County Department of Education:				
265	21st Century Community Learning Centers	84.287C	S287C150044	480,495
	Total U.S. Department of Education			4,012,292
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through Texas Education Agency:				
240 **	National School Breakfast Program	10.553	71401601	1,508,157
240 **	National School Lunch Program	10.555	71301601	2,981,201
	Total Passed Through Texas Education Agency			4,489,358
Passed Through Texas Department of Agriculture:				
240 **	National School Lunch Program - Noncash Assistance	10.555	101924	397,753
240	Child and Adult Care Food Program	10.558	101924	225,630
240 **	Summer Food Service Program	10.559	101924	69,101
240	NSLP Training Assistance Grant	10.560	101924	5,000
240	NSLP Equipment Grant	10.579	101924	25,000
	Total Passed Through Texas Department of Agriculture			722,484
	Total U.S. Department of Agriculture			5,211,842
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed Through Gulf Coast Workforce Solutions Board:				
289	Child Care and Development Funds - TWC Partnership	93.596	2816CCMC24	30,000
	Total U.S. Department of Health and Human Services			30,000
	TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 9,254,134

* Special Education Cluster

** Child Nutrition Cluster

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**SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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, 2016. The information in this schedule is presented in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Fund 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 Federal revenues reported on Exhibit C-3:

Total Expenditures of Federal Awards per Exhibit K-1	\$ 9,254,134
SHARS	1,557,666
Federal Interest Subsidy	430,420
	<hr/>
Total Federal Revenues per Exhibit C-2	<u>\$ 11,242,220</u>

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**SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016**

EXHIBIT L-1

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABS included in government-wide financial statements at fiscal year-end?	\$ 48,010
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 20,961,902
SF13	Pension Expense (6147) at fiscal year-end.	\$ 7,812,834