

**SHELDON INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2015

SHELDON INDEPENDENT SCHOOL DISTRICT
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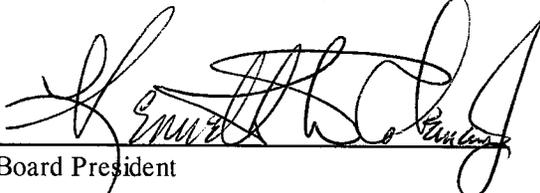
CERTIFICATE OF THE BOARD

Sheldon Independent School District
Name of School District

Harris
County

101-924
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on January 19, 2016.


Board President


Board Secretary

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District") as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Trustees
Sheldon Independent School District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 13 to the financial statements, the District adopted the provisions of Government Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, as of August 31, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 7 - 14, budgetary comparison information on pages 58 - 60, and pension information on pages 61-63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements, and required TEA schedules, except where marked “unaudited”, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain

To the Board of Trustees
Sheldon Independent School District

additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the combining and individual nonmajor fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance as the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Houston, Texas
January 19, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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SHELDON INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sheldon Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2015.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$53,725,879 (net position). Of this amount, \$8,095,674 (unrestricted net position) may be used to meet the District's ongoing obligations to students and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$39,431,322 a decrease of \$12,153,421 in comparison with the prior year. The change in governmental fund balances was primarily due to the decrease in the debt service fund balance of \$8,111,407 and the decrease in the general fund balance of \$4,881,023.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$14,594,422 or 18 percent of total general fund expenditures.
- The District's total bonded debt decreased by \$10,919,449 (6 percent) during the current fiscal year.
- The implementation of GASB No. 68, *Accounting and Financial Reporting for Pensions*, increased the District's non-current liabilities by \$10,381,059, which represents the District's portion of the Teachers Retirement System ("TRS") net pension liability.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, Instructional Services Between Schools, Payments to Juvenile Justice Alternative Education Programs, and Appraisal District Fees.

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

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

Fund financial statements

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

Governmental funds

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

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

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

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

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

Proprietary fund

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

Fiduciary fund

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

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 through 56 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 on pages 58 through 63 of this report.

Other information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 66 through 73 of this report.

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$53,725,879 at the close of the most recent fiscal year.

The District's investment in capital assets (e.g., capitalized bond and land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to \$23,866,654. 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.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 53,338,115	\$ 65,955,278	\$ 6,192	\$ 7,303	\$ 53,344,307	\$ 65,962,581
Capital assets	185,418,391	186,523,177			185,418,391	186,523,177
Total Assets	238,756,506	252,478,455	6,192	7,303	238,762,698	252,485,758
Deferred outflows	4,184,343	1,584,138			4,184,343	1,584,138
Total Deferred Outflows of Resources	4,184,343	1,584,138			4,184,343	1,584,138
Current liabilities	10,628,846	12,885,148	6,192	7,303	10,635,038	12,892,451
Long term liabilities	175,410,528	175,992,527			175,410,528	175,992,527
Total Liabilities	186,039,374	188,877,675	6,192	7,303	186,045,566	188,884,978
Deferred inflows	3,175,596				3,175,596	
Total Deferred Inflows of Resources	3,175,596				3,175,596	
Net Position						
Net investment in capital assets	23,866,654	13,428,672			23,866,654	13,428,672
Restricted	21,763,551	29,651,323			21,763,551	29,651,323
Unrestricted	8,095,674	22,104,923			8,095,674	22,104,923
Total Net Position	\$ 53,725,879	\$ 65,184,918	\$	\$	\$ 53,725,879	\$ 65,184,918

Net position of \$21,763,551 is restricted for state and federal programs, debt service and local grants. The remaining balance of *unrestricted net position* \$8,095,674 may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position. The District's overall net position decreased by a total of \$11,459,039. The District's net position increased by \$302,744 as a result of operations during the current fiscal year primarily related an in increase in state aid, which was offset by decrease to net position due to by a prior period adjustment of (\$11,761,783) due to the implementation of the new pension standards.

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

Sheldon Independent School District's Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenues						
Charges for services	\$ 899,248	\$ 796,876	\$ 330,466	\$ 316,676	\$ 1,229,714	\$ 1,113,552
Operating grants	14,133,648	13,648,891			14,133,648	13,648,891
General Revenues						
Property taxes	71,617,384	69,607,257			71,617,384	69,607,257
State aid	12,275,908	11,741,565			12,275,908	11,741,565
Interest earnings	375,870	447,842			375,870	447,842
Other	282,937	395,506			282,937	395,506
Total Revenues	99,584,995	96,637,937	330,466	316,676	99,915,461	96,954,613
Expenses						
Instruction	51,546,641	47,809,752			51,546,641	47,809,752
Instructional resources and media services	854,840	792,161			854,840	792,161
Curriculum and staff development	130,634	121,381			130,634	121,381
Instructional leadership	3,049,366	2,668,731			3,049,366	2,668,731
School leadership	5,220,749	4,760,337			5,220,749	4,760,337
Guidance, counseling, and evaluation services	2,081,006	2,032,504			2,081,006	2,032,504
Social work services	35,500	34,280			35,500	34,280
Health services	671,675	612,554			671,675	612,554
Student transportation	4,249,923	4,232,024			4,249,923	4,232,024
Food service	5,987,329	5,491,512			5,987,329	5,491,512
Extracurricular activities	2,214,718	2,051,967			2,214,718	2,051,967
General administration	2,626,277	2,015,019			2,626,277	2,015,019
Facilities maintenance and operations	8,949,137	8,370,945			8,949,137	8,370,945
Security and monitoring services	852,393	824,543			852,393	824,543
Data processing services	1,124,291	932,354			1,124,291	932,354
Community services	26,506	21,756	583,879	528,972	610,385	550,728
Interest on long-term debt	6,293,222	6,641,524			6,293,222	6,641,524
Bond issuance costs and fees	252,608	127,501			252,608	127,501
Facilities repairs and maintenance	1,263,875	525,242			1,263,875	525,242
Contracted instructional services between schools	1,034,483	1,560,236			1,034,483	1,560,236
Payments to Juvenile Justice Alternative Education Programs	1,800	4,184			1,800	4,184
Other intergovernmental charges	561,865	517,311			561,865	517,311
Total Expenses	99,028,838	92,147,818	583,879	528,972	99,612,717	92,676,790
Excess (deficiency) before transfers	556,157	4,490,119	(253,413)	(212,296)	302,744	4,277,823
Transfers	(253,413)	(189,192)	253,413	189,192		
Increase (Decrease) in Net Position	302,744	4,300,927		(23,104)	302,744	4,277,823
Beginning net position	65,184,918	60,883,991		23,104	65,184,918	60,907,095
Prior period adjustment	(11,761,783)				(11,761,783)	
Ending net position	\$ 53,725,879	\$ 65,184,918	\$	\$	\$ 53,725,879	\$ 65,184,918

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

Governmental activities

Governmental activities due to operations increased the District's net position by \$302,744. This increase excludes a prior period adjustment of (\$11,761,783). Key elements of this increase as a result of operations are as follows:

Revenues are generated primarily from three sources. State Aid Formula Grant, operating grants and contributions. Grants and contributions (\$26,409,556) represent 27 percent of total revenues and property taxes (\$71,617,384) represent 72 percent of total revenues. The remaining \$1,558,055 is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$51,546,641), which represents 52 percent of total expenses. Facilities maintenance and operations (\$8,949,137) represents 9 percent of total expenses. Interest on long-term debt (\$6,293,222) represents 6 percent of total expenses and food service (\$5,987,329) represents 6 percent of the District. The remaining individual functional categories of expenses are each less than 6 percent of total expenses.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$39,431,322, a decrease of \$12,153,421 in comparison with the prior year. The change in governmental fund balances was primarily due to the decrease in the debt service fund balance and general fund balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14,594,422, while total fund balance reached \$16,851,088. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18 percent of total general fund expenditures, while total fund balance represents 21 percent of that same amount.

The fund balance of the District's general fund decreased by \$4,881,023 during the current fiscal year primarily due to increases in expenditures for instruction.

The debt service fund has a total fund balance of \$20,194,045, all of which is restricted for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$8,111,407 was primarily attributable to payment of \$8,000,000 of principal for to retire Qualified Zone Academy Bonds. These type of bonds require full payment upon maturity.

The capital projects fund has a total fund balance of \$1,252,317, all of which is restricted for authorized construction and technology projects/enhancements. The net increase in fund balance during the current year of \$933,836 was primarily due to proceeds from issuance of bonds.

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

General Fund Budgetary Highlights

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

	Estimated Revenues
Original	\$ 78,921,646
Final	79,528,533
Total estimated revenues increase	\$ 606,887

	Appropriations
Original	\$ 81,026,309
Final	83,487,623
Total appropriations increase	\$ 2,461,314

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

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2015, amounts to \$185,418,391 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 1 percent.

	Balance September 1, 2014	Additions	Retirements and Transfers	Balance August 31, 2015
Land	\$ 5,775,196	\$ 190,000	\$	\$ 5,965,196
Buildings and improvements	226,275,831	3,925,857	10,410,210	240,611,898
Furniture and equipment	11,213,335	481,345	(4,207)	11,690,473
Construction in progress	10,410,210		(10,410,210)	
	<u>253,674,572</u>	<u>4,597,202</u>	<u>(4,207)</u>	<u>258,267,567</u>
Less accumulated depreciation for:				
Buildings and improvements	(59,715,736)	(4,949,664)		(64,665,400)
Furniture and equipment	(7,435,659)	(752,324)	4,207	(8,183,776)
	<u>(67,151,395)</u>	<u>(5,701,988)</u>	<u>4,207</u>	<u>(72,849,176)</u>
Governmental Capital Assets	<u>\$ 186,523,177</u>	<u>\$ (1,104,786)</u>	<u>\$</u>	<u>\$ 185,418,391</u>

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

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

Long-term liabilities

At the end of the current fiscal year, the District had \$164,397,160 in bonded debt outstanding, a decrease of \$10,919,450 over the previous year. The District's bonds are sold with an "Aaa" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program. The underlying rating of the bonds from Moody's Investors Service is "Aa2" for general obligation debt.

Changes to bonded debt, for the year ended August 31, 2015, are as follows:

	Balance August 31, 2014	Additions	Retirements	Balance August 31, 2015
General obligation bonds	\$ 171,394,658	\$ 16,040,000	\$ (27,094,661)	\$ 160,339,997
Amounts for issuance premiums	3,602,466	685,656	(230,959)	4,057,163
Accreted interest on premium compound interest bonds	319,486	10,853	(330,339)	
	<u>\$ 175,316,610</u>	<u>\$ 16,736,509</u>	<u>\$ (27,655,959)</u>	<u>\$ 164,397,160</u>

Additional information on the District's long-term liabilities can be found in Note 7, on pages 47 through 48 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

- Peak enrollment totaled 7,986 students, which is a 2.4 percent increase from the prior year. Enrollment growth is projected to continue.
- District staff totals 1,228 employees, which primarily consists of 552 teachers, 243 paraprofessionals and 277 auxiliary staff.
- The District maintains 10 campuses for instruction.
- The economic growth in the area will help to bring additional taxable property value for the District.
- The total property tax be \$1.41 per \$100 of assessed value for 2015-16. I&S rate is reduced by two cents because of value growth.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
August 31, 2015

Exhibit A-1

Data Control Codes	Governmental Activities	Business-type Activities	Total
Assets			
1110	\$ 41,622,008	\$ 5,600	\$ 41,627,608
1220	3,933,106		3,933,106
1240	1,643,501		1,643,501
1260	(592)	592	
1267	882		882
1290	1,318,018		1,318,018
1300	508,223		508,223
Capital Assets, not subject to depreciation:			
1510	5,965,196		5,965,196
Capital Assets, net of accumulated depreciation:			
1520	175,946,498		175,946,498
1530	3,506,697		3,506,697
1810	4,312,969		4,312,969
1000 Total Assets	238,756,506	6,192	238,762,698
Deferred Outflows of Resources			
1700	1,593,106		1,593,106
1705	2,591,237		2,591,237
Total Deferred Outflows of Resources	4,184,343		4,184,343
Liabilities			
2110	1,527,077	4,960	1,532,037
2140	278,234		278,234
2150	565,117		565,117
2160	2,917,427	1,232	2,918,659
2180	5,247,887		5,247,887
2300	93,104		93,104
Noncurrent Liabilities:			
2501	6,197,206		6,197,206
2502	158,832,263		158,832,263
2540	10,381,059		10,381,059
2000 Total Liabilities	186,039,374	6,192	186,045,566
Deferred Inflows of Resources			
2600	3,175,596		3,175,596
Total Deferred Inflows of Resources	3,175,596		3,175,596
Net Position			
3200	23,866,654		23,866,654
Restricted for:			
3820	1,133,872		1,133,872
3850	20,629,679		20,629,679
3900	8,095,674		8,095,674
3000 Total net position	\$ 53,725,879	\$	\$ 53,725,879

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2015

Data Control Codes	Functions/Programs	Program Revenue		
		Expenses	Charges for Services	Operating Grants and Contributions
Governmental activities:				
11	Instruction	\$ 51,546,641	\$	\$ 6,036,659
12	Instructional resources and media services	854,840		40,268
13	Curriculum and staff development	130,634		
21	Instructional leadership	3,049,366		190,758
23	School leadership	5,220,749		322,143
31	Guidance, counseling, and evaluation services	2,081,006		489,612
32	Social work services	35,500		
33	Health services	671,675		1,169,602
34	Student transportation	4,249,923		161,072
35	Food service	5,987,329	741,926	4,797,935
36	Extracurricular activities	2,214,718	157,322	40,268
41	General administration	2,626,277		120,804
51	Facilities maintenance and operations	8,949,137		281,876
52	Security and monitoring services	852,393		
53	Data processing services	1,124,291		40,268
61	Community services	26,506		14,272
72	Interest on long-term debt	6,293,222		428,111
73	Bond issuance costs and fees	252,608		
81	Facilities repairs and maintenance	1,263,875		
91	Contracted instructional services between schools	1,034,483		
95	Payments to Juvenile Justice Alternative Education Programs	1,800		
99	Other intergovernmental charges	561,865		
TG	Total Governmental Activities	<u>99,028,838</u>	<u>899,248</u>	<u>14,133,648</u>
Business-type Activities				
01	Early Learning Center - Daycare	583,879	330,466	
TB	Total Business-type Activities	<u>583,879</u>	<u>330,466</u>	
TP	Total Primary Government	<u>\$ 99,612,717</u>	<u>\$ 1,229,714</u>	<u>\$ 14,133,648</u>

Data Control Codes

General Revenues:	
Taxes:	
MT	Property taxes, levied for general purposes
DT	Property taxes, levied for debt service
SF	State-aid formula grants
IE	Investment earnings
MI	Miscellaneous
FR	Transfers
TR	Total General Revenues, Special Items, and Transfer
CN	Change in net position
NB	Net position - beginning
PA	Prior period adjustments
NE	Net position - ending

See Notes to the Financial Statements

Exhibit B-1

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

Governmental Activities	Business-type Activities	Total
\$ (45,509,982)	\$	\$ (45,509,982)
(814,572)		(814,572)
(130,634)		(130,634)
(2,858,608)		(2,858,608)
(4,898,606)		(4,898,606)
(1,591,394)		(1,591,394)
(35,500)		(35,500)
497,927		497,927
(4,088,851)		(4,088,851)
(447,468)		(447,468)
(2,017,128)		(2,017,128)
(2,505,473)		(2,505,473)
(8,667,261)		(8,667,261)
(852,393)		(852,393)
(1,084,023)		(1,084,023)
(12,234)		(12,234)
(5,865,111)		(5,865,111)
(252,608)		(252,608)
(1,263,875)		(1,263,875)
(1,034,483)		(1,034,483)
(1,800)		(1,800)
(561,865)		(561,865)
(83,995,942)		(83,995,942)
	(253,413)	(253,413)
	(253,413)	(253,413)
(83,995,942)	(253,413)	(84,249,355)
58,570,745		58,570,745
13,046,639		13,046,639
12,275,908		12,275,908
375,870		375,870
282,937		282,937
(253,413)	253,413	
84,298,686	253,413	84,552,099
302,744		302,744
65,184,918		65,184,918
(11,761,783)		(11,761,783)
\$ 53,725,879	\$	\$ 53,725,879

SHELDON INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2015

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Assets				
1110	Cash and temporary investments	\$ 23,255,354	\$ 15,745,946	\$ 1,512,693
	Receivables:			
1220	Delinquent property taxes receivables	3,966,374	966,322	
1230	Allowance for uncollectible taxes (credit)	(809,195)	(190,395)	
1240	Receivables from other governments	1,020,920		
1260	Due from other funds	428,749	80,071	44,596
1290	Other receivables	1,318,018		
1300	Inventories	357,298		
1810	Restricted cash and temporary investments		4,312,969	
1000	Total Assets	\$ 29,537,518	\$ 20,914,913	\$ 1,557,289
Liabilities, Deferred Inflows, and Fund Balance				
Liabilities:				
2110	Accounts payable	\$ 789,696	\$ 7,000	\$ 304,972
2150	Payroll deduction and withholdings payable	565,117		
2160	Accrued wages payable	2,823,580		
2170	Due to other funds	367,780		
2180	Payable to other governments	5,247,887		
2300	Unearned revenues	50,057		
2000	Total Liabilities	9,844,117	7,000	304,972
Deferred Inflows of Resources				
2600	Unavailable revenues - property taxes	2,842,313	713,868	
	Total Deferred Inflows of Resources	2,842,313	713,868	
Fund Balance:				
Nonspendable:				
3410	Inventories	357,298		
Restricted:				
3450	Grant funds	39,368		
3470	Capital acquisitions			1,252,317
3480	Debt service		20,194,045	
Assigned:				
3590	Other purposes	1,860,000		
3600	Unassigned	14,594,422		
3000	Total Fund Balance	16,851,088	20,194,045	1,252,317
4000	Total Liabilities/Total Liabilities, Deferred Inflows, and Fund Balances and Fund Balances	\$ 29,537,518	\$ 20,914,913	\$ 1,557,289

See Notes to the Financial Statements.

Exhibit C-1

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,108,015	\$ 41,622,008
	4,932,696
	(999,590)
622,581	1,643,501
241,939	795,355
	1,318,018
150,925	508,223
	4,312,969
<u>\$ 2,123,460</u>	<u>\$ 54,133,180</u>

\$ 425,409	\$ 1,527,077
	565,117
93,847	2,917,427
427,285	795,065
	5,247,887
43,047	93,104
<u>989,588</u>	<u>11,145,677</u>

	<u>3,556,181</u>
	<u>3,556,181</u>

150,925	508,223
982,947	1,022,315
	1,252,317
	20,194,045
	1,860,000
	14,594,422
<u>1,133,872</u>	<u>39,431,322</u>
<u>\$ 2,123,460</u>	<u>\$ 54,133,180</u>

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SHELDON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
August 31, 2015

Exhibit C-2

Data Control Codes		
	Total Fund Balance, governmental funds	\$ 39,431,322
	Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	185,418,391
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	3,556,181
3	Deferred charge on refunding	1,593,106
4	Deferred outflows related to pension	2,591,237
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
5	General obligation bonds	(160,339,997)
6	Premiums on issuance	(4,057,163)
7	Net pension liability	(10,381,059)
8	Accrued compensated absences	(632,309)
9	Accrued interest payable	(278,234)
	Deferred inflow for pension earnings and proportionate share	(3,175,596)
19	Total Net Position - governmental activities	<u>\$ 53,725,879</u>

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 57,514,973	\$ 13,056,641	\$ 576
5800	State program revenues	15,444,743		
5900	Federal program revenues	1,591,300		
5020	Total Revenues	<u>74,551,016</u>	<u>13,056,641</u>	<u>576</u>
Expenditures				
Current:				
0011	Instruction	44,772,748		
0012	Instructional resources and media services	701,508		
0013	Curriculum and staff development	130,634		
0021	Instructional leadership	2,973,852		
0023	School leadership	5,076,811		
0031	Guidance, counseling and evaluation services	1,661,883		
0032	Social work services	35,500		
0033	Health services	622,093		
0034	Student transportation	3,682,744		
0035	Food services			
0036	Extracurricular activities	1,742,951		
0041	General administration	2,588,902		
0051	Facilities maintenance and operations	8,702,232		
0052	Security and monitoring services	852,393		
0053	Data processing services	1,087,932		
0061	Community services	12,580		
Debt Service:				
0071	Principal on long-term debt	575,000	12,644,661	
0072	Interest on long-term debt	177,378	6,507,708	
0073	Bond issuance costs and fees		180,171	72,437
Capital Outlay:				
0081	Facilities acquisition and construction	2,199,770		3,516,740
Intergovernmental:				
0091	Contracted instructional services between schools	1,034,483		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	1,800		
0099	Other intergovernmental charges	561,865		
6030	Total Expenditures	<u>79,195,059</u>	<u>19,332,540</u>	<u>3,589,177</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(4,644,043)</u>	<u>(6,275,899)</u>	<u>(3,588,601)</u>
Other Financing Sources (Uses)				
7901	Refunding bonds issued		11,655,000	
7911	Issuance of bonds			4,385,000
7912	Sale of real or personal property	6,340		
7916	Premium or discount on issuance of bonds		548,219	137,437
7949	Other resources	10,093		
8911	Transfers out	(253,413)		
8949	Payment to refunded bond escrow agent		(14,038,727)	
7080	Total Other Financing Sources (Uses)	<u>(236,980)</u>	<u>(1,835,508)</u>	<u>4,522,437</u>
1200	Net change in fund balances	(4,881,023)	(8,111,407)	933,836
0100	Fund Balance - beginning	<u>21,732,111</u>	<u>28,305,452</u>	<u>318,481</u>
3000	Fund Balance - ending	<u>\$ 16,851,088</u>	<u>\$ 20,194,045</u>	<u>\$ 1,252,317</u>

See Notes to the Financial Statements.

Exhibit C-3

Nonmajor Governmental Funds	Total Governmental Funds
\$ 790,434	\$ 71,362,624
947,267	16,392,010
<u>8,629,592</u>	<u>10,220,892</u>
<u>10,367,293</u>	<u>97,975,526</u>
4,435,609	49,208,357
	701,508
	130,634
29,686	3,003,538
	5,076,811
368,808	2,030,691
	35,500
	622,093
	3,682,744
5,613,745	5,613,745
	1,742,951
	2,588,902
	8,702,232
	852,393
	1,087,932
14,272	26,852
	13,219,661
	6,685,086
	252,608
	5,716,510
	1,034,483
	1,800
	<u>561,865</u>
<u>10,462,120</u>	<u>112,578,896</u>
<u>(94,827)</u>	<u>(14,603,370)</u>
	11,655,000
	4,385,000
	6,340
	685,656
	10,093
	(253,413)
	<u>(14,038,727)</u>
	<u>2,449,949</u>
(94,827)	(12,153,421)
<u>1,228,699</u>	<u>51,584,743</u>
<u>\$ 1,133,872</u>	<u>\$ 39,431,322</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

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

For the Year Ended August 31, 2015

Data Control Codes		
	Net change in fund balances - total governmental funds (from C-3)	\$ (12,153,421)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
	Capital Outlay	4,597,202
	Depreciation Expense	(5,701,988)
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,796,382
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	13,219,661
4	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	(16,040,000)
5	Premiums on the issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, premiums are treated as an increase in long-term liabilities.	(685,656)
6	Payment to escrow agent for payment of refunded bonds	14,038,727
7	Pension contributions made after the pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position	1,755,911
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
8	Increase in interest payable not recognized in fund statements	(3,822)
9	Increase in long-term portion of accrued compensated absences	43,608
10	Amortization of bond premiums and deferred charge on refunding	76,200
11	Decrease in accreted interest on capital appreciation bonds	319,486
12	Pension expense for the pension plan measurement year	(959,546)
	Change in net position of governmental activities (see B-1)	<u>\$ 302,744</u>

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUND

August 31, 2015

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	Assets	
	Current Assets:	
1110	Cash and cash equivalents	\$ 5,600
1260	Due from other funds	592
1000	Total Assets	<u>6,192</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	4,960
2160	Accrued wages payable	1,232
2000	Total Liabilities	<u>6,192</u>
	Net Position	
3900	Unrestricted net position	
3000	Total Net Position	<u>\$</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended August 31, 2015

Exhibit D-2

<u>Data Control Codes</u>	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
Operating Revenues	
5739 Tuition	\$ 330,466
5020 Total Operating Revenues	<u>330,466</u>
Operating Expenses	
6100 Payroll costs	534,632
6200 Purchased and contracted services	7,654
6300 Supplies and materials	13,097
6400 Other operating expenses	28,496
6030 Total Operating Expenses	<u>583,879</u>
1200 Operating income (loss)	<u>(253,413)</u>
Income (loss) before transfers	(253,413)
Transfers	
7915 Transfers in	<u>253,413</u>
1200 Change in net position	
0100 Net Position - beginning	<u> </u>
3300 Net Position - ending	<u>\$ </u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended August 31, 2015

Exhibit D-3

	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 330,466
Cash payments to suppliers for goods and services	(38,099)
Cash payments to employees	(540,180)
Net Cash Used for Operating Activities	<u>(247,813)</u>
Cash Flows from Non-Capital Financing Activities:	
Advances from other funds	253,413
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>253,413</u>
Net decrease in cash and cash equivalents	5,600
Cash and Cash Equivalents at Beginning of Year	
Cash and Cash Equivalents at End of Year	<u>\$ 5,600</u>
Reconciliation to Balance Sheet	
Cash and cash equivalents per cash flow	\$ 5,600
Cash and cash equivalents per balance sheet	<u>\$ 5,600</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating loss	\$ (253,413)
Change in Assets and Liabilities:	
Increase in interfund receivable	6,711
Decrease in accounts payable	4,437
Increase in accrued wages payable	(5,548)
Net Cash Used for Operating Activities	<u>\$ (247,813)</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2015

<u>Data Control Codes</u>		810	865
		<u>Scholarship Fund</u>	<u>Student Activity Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 247,819	\$ 336,394
1000	Total Assets	<u>247,819</u>	<u>336,394</u>
	Liabilities		
2170	Due to primary government		\$ 882
2190	Due to student groups	48,356	335,512
2000	Total Liabilities	<u>48,356</u>	<u>\$ 336,394</u>
	Net Position		
3800	Restricted for scholarships	<u>\$ 199,463</u>	

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2015

Exhibit E-2

	810 Scholarship Fund
Additions	
Gifts and contributions	\$ 57,214
Earnings on investments	283
Total Additions	<u>57,497</u>
Deductions	
Scholarships awarded	<u>55,609</u>
Total Deductions	<u>55,609</u>
Change in net position	1,888
Net Position, beginning of year	<u>197,575</u>
Net Position, end of year	<u>\$ 199,463</u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

Deposits and Investments

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

Investments for the District are reported at fair value based on quoted market prices at August 31, 2015. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Receivables and Payables

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

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

Inventories

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

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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

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

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

Compensated Absences

The District's employees earn sick leave and vacation benefits which may be accumulated each year. The District's policy permits employees, upon retirement, who have worked in the District for a minimum of three consecutive years prior to their retirement to be compensated for their accumulated unused sick leave at their daily rate of pay, not to exceed the daily cost of a degreed substitute teacher. The District estimates that the liability for accumulated unpaid sick leave for all employees eligible to be \$632,309 as of August 31, 2015.

Long-term Obligations

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding – Reported in the government-wide statement of net position, the deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pensions through the pension plan, which is currently 6.94 years.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues – Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas ("TRS") has been determined using the flow of economic resources measurement of 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 benefit terms. Investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Equity

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

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

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

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

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

State aid adjustments	\$	5,000
Wealth equalization payments		5,000
Encumbrances		350,000
Emergency repairs		1,500,000
	\$	<u>1,860,000</u>

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

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

Data Control Codes

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

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Implementation of New Accounting Standards

In the current fiscal year, the District implemented the following new standards:

GASB Statement 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”) establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (“GASB 71”) amends the transition provisions of GASB 68. GASB 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

Comparative Data/Reclassifications

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

Note 2 - Deposits and Investments

Cash Deposits

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

Cash Deposits (continued)

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

Note 2 - Deposits and Investments (continued)

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

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

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

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

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

Investments

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

Note 2 - Deposits and Investments (continued)

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

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

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

A summary of the District’s cash and investments at August 31, 2015, are shown below:

	Cash and Deposits	Money Market Mutual Funds	Local Government Investment Pools	Certificates of Deposit	Repurchase Agreement	Investment Securities	Total
Governmental Funds							
General Fund	\$ 2,770,563	\$ 361,433	\$ 12,600,700	\$ 7,522,658	\$	\$	\$ 23,255,354
Debt Service Fund	39,432	691,943	15,014,571		2,435,217	1,877,752	20,058,915
Capital Projects Fund	1,036,274	212	476,207				1,512,693
Non-major Governmental Funds	193,501	406,655	507,859				1,108,015
Total Governmental Funds	<u>4,039,770</u>	<u>1,460,243</u>	<u>28,599,337</u>	<u>7,522,658</u>	<u>2,435,217</u>	<u>1,877,752</u>	<u>45,934,977</u>
Proprietary Funds	<u>5,600</u>						<u>5,600</u>
Fiduciary Funds	<u>359,673</u>			<u>224,540</u>			<u>584,213</u>
Total Cash and Investments	<u>\$ 4,405,043</u>	<u>\$ 1,460,243</u>	<u>\$ 28,599,337</u>	<u>\$ 7,747,198</u>	<u>\$ 2,435,217</u>	<u>\$ 1,877,752</u>	<u>\$ 46,524,790</u>

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

Note 2 - Deposits and Investments (continued)

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

The following table includes the portfolio balance, credit rating and percentage of the portfolio balance by investment type of the District as of August 31, 2015:

Investment Type	Fair Market Value	S & P Credit Quality Ratings	Percentage of Investments
Local Government Investment Pools			
Lone Star	\$ 25,038,357	AAA	72.84%
TexStar	3,560,980	AAAm	10.36%
	<u>28,599,337</u>		
Investment Securities			
Federal National Mortgage Assn	1,877,752	A-1+	5.46%
Repurchase Agreement	2,435,217	A3	7.08%
Money Market Mutual Fund	1,460,243	Not Rated	4.25%
	<u>5,773,212</u>		
Total Investments	<u>\$ 34,372,549</u>		

Local Government Investment Pools

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

TexSTAR and Lone Star policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act of 1995, as amended. The value of the District's portion in TexSTAR and Lone Star are the same as the value of the shares. The external investment pool funds operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The external investment pool funds use amortized cost rather than market value to report net position to compute share price. Accordingly, the fair value of the positions of the pooled funds are the same as the value of the external investments pool funds shares. The funds are structured similar to a money market mutual fund which allows shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. At August 31, 2015, TexSTAR and Lone Star had a weighted average maturity of 47 days and 27 days, respectively. Although the external investment pool funds had a weighted average maturity of more than one day, the District considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Note 2 - Deposits and Investments (continued)

Oversight Responsibility

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

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

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

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

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

	Fair Market Value	Weighted Average Maturity (Days)
Cash and deposits	\$ 4,405,043	N/A
Certificates of deposit	7,747,198	136
Investments:		
Local Government Investment Pools:		
Lone Star	25,038,357	27
TexStar	3,560,980	47
Investment Securities:		
Federal National Mortgage Assn	1,877,752	106
Repurchase Agreement	2,435,217	
Money Market Mutual Fund	1,460,243	1
Total Investments	<u>34,372,549</u>	<u>30</u>
Total Cash and Investments	<u>\$ 46,524,790</u>	

Interest Rate Risk

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

Note 2 - Deposits and Investments (continued)

Credit Risk:

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized credit rating organizations. As of August 31, 2015, the District's investment in TexSTAR was rated AAAM by Standard and Poor's. The District's investment in Lone Star Investment Pool was rated AAA by Standard and Poor's. The District's investments in Federal National Mortgage Association was rated A-1+ by Standard & Poor's.

Concentration of Credit Risk

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

The investments are reported by the District at fair value. The amount of investment earnings during the year ended August 31, 2015 was \$375,870.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. State statutes require repurchase agreements to be fully collateralized by bonds or securities issued by the federal government, or its agencies and instrumentalities. The District does not have an additional custodial credit risk policy.

On August 31, 2015, the District held a repurchase agreement investment of \$2,435,217 which the underlying securities are held by the investments' counterparty, not in the name of the District. Eligible Securities, as identified in the repurchase agreement, require a security ratio of 103% per the terms of the agreement. The final repurchase date is February 15, 2027. At August 31, 2015, the fair market value of the pledged securities was \$2,782,466.

Termination Risk

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

At August 31, 2015, the credit rating assigned to the counterparty is "A3" by Moody's and "A-" by Fitch.

Note 3 - Receivables

Property taxes are considered available when collected within the current period. Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Central Appraisal District (CAD) of Harris County, Texas. Taxes are levied by the District's Board of Trustees based on the appraised values received from the CAD. Billing and collection of tax levies are performed by the District.

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures. Tax rates levied to finance general government and debt service expenditures for 2014-2015 were \$1.17 and \$0.26, respectively, based on an adjusted assessed property valuation of approximately \$4.93 billion resulting in an adjusted tax levy of approximately \$70.52 million. Allowances for uncollectible taxes are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Net receivables, at August 31, 2015, consisted of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 3,966,374	\$ 966,322	\$	\$ 4,932,696
Due from other governments	1,020,920		622,581	1,643,501
Other	1,318,018			1,318,018
Gross receivables	6,305,312	966,322	622,581	7,894,215
Less allowance for doubtful accounts	(809,195)	(190,395)		(999,590)
Net Total Receivables	\$ 5,496,117	\$ 775,927	\$ 622,581	\$ 6,894,625

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, unearned revenues reported in the governmental funds were for advanced collection of fees in the amount of \$93,104.

Note 4 - Due from other Governments

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

Note 5 - Interfund Activities

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

The composition of interfund balances as of August 31, 2015, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 428,749	\$ 367,780
Debt Service Fund	80,071	
Capital Projects Fund	44,596	
Proprietary Funds	592	
Fiduciary Funds		882
Nonmajor Governmental Funds	241,939	427,285
	<u>\$ 795,947</u>	<u>\$ 795,947</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” During the 2015 fiscal year, the District made a transfer in the amount of \$253,413 from the general fund to the proprietary fund to cover an operating deficit associated with the Early Learning Center Daycare.

Note 6 - Capital Assets

Changes in Capital Assets

A summary of changes in capital assets for the year ended August 31, 2015, are as follows:

	<u>Balance September 1, 2014</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 5,775,196	\$ 190,000	\$	\$ 5,965,196
Construction in progress	10,410,210		(10,410,210)	
Total Capital assets, not being depreciated	<u>16,185,406</u>	<u>190,000</u>	<u>(10,410,210)</u>	<u>5,965,196</u>
Capital assets, being depreciated:				
Buildings and improvements	226,275,831	3,925,857	10,410,210	240,611,898
Furniture and equipment	11,213,335	481,345	(4,207)	11,690,473
Total Capital assets, being depreciated	<u>237,489,166</u>	<u>4,407,202</u>	<u>10,406,003</u>	<u>252,302,371</u>
Less accumulated depreciation for:				
Buildings and improvements	(59,715,736)	(4,949,664)		(64,665,400)
Furniture and equipment	(7,435,659)	(752,324)	4,207	(8,183,776)
Total Accumulated depreciation	<u>(67,151,395)</u>	<u>(5,701,988)</u>	<u>4,207</u>	<u>(72,849,176)</u>
Governmental Capital Assets	<u>\$ 186,523,177</u>	<u>\$ (1,104,786)</u>	<u>\$</u>	<u>\$ 185,418,391</u>

Note 6 - Capital Assets (continued)

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

Function	Depreciation Expense
Instruction	\$ 3,392,949
Instructional resources and media services	151,923
Instructional leadership	50,640
School leadership	151,923
Guidance, counseling and evaluation services	50,640
Health services	50,640
Student transportation	570,565
Food Services	435,997
Extracurricular activities	486,526
General administration	50,640
Facilities maintenance and operations	258,905
Data processing services	50,640
	<u>\$ 5,701,988</u>

The District did not have any active construction projects at year end.

Note 7 - Long-Term Debt and Debt Service Requirements

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

In fiscal year 2015, the District issued Unlimited School Building and Refunding Bonds, Series 2015, which included new debt in the amount of \$4,385,000. Premiums on the new bonds totaled \$137,437, with interest rates ranging from 3.0 percent to 5.0 percent.

A summary of general long-term debt transactions of the District for the year ended August 31, 2015, follows:

	Balance August 31, 2014	Additions	Retirements	Balance August 31, 2015	Due Within One Year
General obligation bonds	\$ 171,394,658	\$ 16,040,000	\$ (27,094,661)	\$ 160,339,997	\$ 6,045,000
Premiums/discounts	3,602,466	685,656	(230,959)	4,057,163	
Accreted interest on premium compound interest bonds	319,486	10,853	(330,339)		
Compensated absences payable	675,917	207,944	(251,552)	632,309	152,206
	<u>\$ 175,992,527</u>	<u>\$ 16,944,453</u>	<u>\$ (27,907,511)</u>	<u>\$ 165,029,469</u>	<u>\$ 6,197,206</u>

At August 31, 2015, the District had \$7,370,000 in authorized but unissued bonds.

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

Bonded long-term debt, at August 31, 2015, is comprised of the following individual issues:

Issue	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax School Building Bonds, Series 2005	0%	2020	\$ 3,000,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	4,030,000
Refunding Bonds, Series 2007	0.00% to 5.00%	2037	39,975,002
Unlimited Tax School Building Bonds, Series 2008	0.00% to 5.00%	2038	15,515,000
Unlimited Tax Refunding Bonds, Series 2009	2.00% to 3.13%	2019	2,680,000
Unlimited Tax Refunding Bonds, Series 2010	1.75% to 4.00%	2027	15,654,999
Unlimited Qualified School Construction Bonds, Series 2010	0%	2027	8,200,000
Unlimited Tax School Building Bonds, Series 2010A	0.00% to 4.00%	2040	8,350,000
Unlimited Tax School Building Bonds, Series 2011	2.00% to 3.00%	2041	5,630,000
Unlimited Tax Refunding Bonds, Series 2011	2.00% to 3.00%	2028	3,264,996
Unlimited Tax School Building and Refunding Bonds, Series 2012	1.00% to 2.00%	2032	9,045,000
Unlimited Tax School Building and Refunding Bonds, Series 2013	3.00% to 3.50%	2043	19,680,000
Unlimited Tax School Building and Refunding Bonds, Series 2014	2.30% to 2.55%	2039	9,410,000
Unlimited Tax School Building and Refunding Bonds, Series 2015	3.00% to 5.00%	2040	15,905,000
			<u>\$ 160,339,997</u>

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

Annual requirements to amortize all bonded long-term debt outstanding as of August 31, 2015, follows:

Year Ending August 31,	Principal	Interest	Totals
2016	\$ 6,045,000	\$ 6,300,462	\$ 12,345,462
2017	6,280,000	6,075,740	12,355,740
2018	6,515,000	5,837,365	12,352,365
2019	6,760,000	5,584,915	12,344,915
2020	10,050,000	5,308,493	15,358,493
2021-2025	36,955,000	22,202,551	59,157,551
2026-2030	39,584,997	14,130,983	53,715,980
2031-2035	28,330,000	7,257,891	35,587,891
2036-2040	17,660,000	1,732,325	19,392,325
2041-2042	2,160,000	104,388	2,264,388
	<u>\$ 160,339,997</u>	<u>\$ 74,535,113</u>	<u>\$ 234,875,110</u>

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

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 temporary investments* on both the Statement of Net Position (Exhibit A-1) and in the Debt Service fund on the Governmental Funds Balance Sheet (Exhibit C-1).

Funds held in trust for Qualified Zone Academy Bonds (QZAB) and Qualified School Construction Bonds (QSCB) are comprised of the following balances at August 31, 2015:

<u>Issue</u>	Restricted Cash and Temporary Investments	Maturity Amount	Maturity Date
Unlimited Tax School Building Bonds, Series 2005	\$ 1,877,752	\$ 3,000,000	2020
Unlimited Tax Qualified School Construction Bonds, Series 2010	2,435,217	8,200,000	2027
	<u>\$ 4,312,969</u>	<u>\$ 11,200,000</u>	

Prior Year Refunding of Long-Term Debt

In prior years, the District defeased, certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust, to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2015, all of previously refunded debt has been retired.

Advanced Refunding

During the 2015 fiscal year, The District issued Unlimited Tax Building and Refunding Bonds, Series 2015, in the amount of \$11,655,000, to refund Unlimited Tax Building and Refunding Bonds, Series 2005. The amount of the refunded bonds totaled \$13,875,000. Premiums on the bonds totaled \$548,219. As a result, the refunded bonds have been removed from the governmental activities column of the statement of net position. Interest rates on the bonds range from 3.0 percent to 5.0 percent. The reacquisition price exceeded the net carrying amount of the old debt by \$137,014. This amount is being netted against the shorter of the refunding or refunded debt. The transactions resulted in an economic gain of \$2,103,891.

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

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property taxes	\$ 57,096,647	\$ 12,724,355	\$	\$	\$ 69,821,002
Investment income	42,285	332,286	576	723	375,870
Co-curricular student activities	157,322				157,322
Food sales				741,878	741,878
Other	218,719			47,833	266,552
	<u>\$ 57,514,973</u>	<u>\$ 13,056,641</u>	<u>\$ 576</u>	<u>\$ 790,434</u>	<u>\$ 71,362,624</u>

Note 9 - 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.

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.

Note 9 - Defined Benefit Pension Plan (continued)

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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	Plan Fiscal year	
	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Employer	6.8%	6.8%

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).

	<u>Contributions Required and Made</u>	<u>Pension Expense</u>	<u>TRS Contributions Made During Fiscal Year</u>
Member (employee)	\$ 916,286	\$	\$ 3,646,333
Non-employer contributing agency (state)	2,429,149	2,371,093	
District	985,304	959,546	1,755,911

Note 9 - Defined Benefit Pension Plan (continued)

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, 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.

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual EntryAge Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

**Includes Inflation of 3%*

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

Note 9 - Defined Benefit Pension Plan (continued)

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. 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 the Systems target asset allocation as of August 31, 2014, are summarized in the following table:

Asset Class	Target Allocation	Real Return Geometric Basis	Long Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. developed	13%	7.3%	1.1%
Emerging markets	9%	8.1%	0.9%
Directional Hedge funds	4%	5.4%	0.2%
Private equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute return	0%	4.0%	0.0%
Stable Value Hedge funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
Real Return			
Global inflation linked bonds	3%	3.1%	0.0%
Real assets	16%	7.3%	1.5%
Energy and natural resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk parity	5%	8.9%	0.4%
Alpha			1.0%
Total	100%		8.7%

* *The Expected Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

Note 9 - 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 2014 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	\$ 18,550,322	\$ 10,381,059	\$ 4,271,971

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

At August 31, 2015, the District reported a liability 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 net pension liability	\$ 10,381,059
State's proportionate share of the net pension liability associated with the District	<u>25,647,821</u>
	<u>\$ 36,028,880</u>

The net pension liability was measured as of August 31, 2014 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, 2013 thru August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was .039%. The change in proportion was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, the District recognized pension expense of \$959,546 and revenue of \$2,371,093 for support provided by the State.

Note 9 - Defined Benefit Pension Plan (continued)

At August 31, 2014, 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 experience	\$ 160,546	\$
Changes of assumptions	674,780	
Net difference between projected and actual earnings on pension plan investments		3,172,875
Changes in proportion and differences between District contributions and proportionate share of contributions		2,721
District contributions subsequent to the measurement date	1,755,911	
Total	<u>\$ 2,591,237</u>	<u>\$ 3,175,596</u>

\$1,755,911 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2015. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Amount
2016	\$ (653,064)
2017	(653,064)
2018	(653,064)
2019	(653,063)
2020	140,155
2021	131,830

Note 10 - Retiree Health Plan

Plan Description

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

Note 10 - Retiree Health Plan (continued)

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

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2015, 2014, and 2013. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1%.

Contributions made by the State, District and staff members for the years ended August 31, 2015, 2014, and 2013, are as follows:

Fiscal Year	Contributions Required and Made				Annual Covered Payroll
	State	District	Employees	Totals	
2015	\$ 244,896	\$ 336,325	\$ 353,750	\$ 934,971	\$ 54,422,769
2014	224,179	308,838	323,824	856,841	49,819,013
2013	210,787	265,005	294,542	770,334	45,313,481

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

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2015, 2014 and 2013, the subsidy payments received by TRS-Care on behalf of the District were \$218,944, \$130,978 and \$118,888, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

Note 11 - Litigation

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

One of the District’s large ad valorem tax payers filed suit challenging the appraised property values for the 2014 tax year.

Note 12 - Contingent Liabilities

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

Note 13 - Prior Period Adjustment

In fiscal year 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date*. Due to the implementation of these new standards, a prior period adjustment was necessary to record the beginning net pension liability and associated deferred outflows.

The following illustrates the effect of the prior period adjustment:

Beginning Net Position	\$ 65,184,918
Restatement due to:	
Net pension liability (measurement date as of August 31, 2013)	(12,747,087)
Deferred Outflows:	
District contributions made to TRS during the fiscal year	<u>985,304</u>
Beginning Net Position - as restated	<u><u>\$ 53,423,135</u></u>

Note 14 - Subsequent Events

In December 2015, the District sold \$40,960,000 in Unlimited Tax School Building & Refunding Bonds, Series 2016. Of this amount, \$3,640,000 is to be used for the purchase of school buses, facility improvements and construction, and \$37,320,000 is for refunding of previously issued debt. Premiums on the bonds totaled \$2,708,900 with interest rates ranging from 3 percent to 5 percent. The refunding resulted in an economic gain in the amount of \$7,438,001.

REQUIRED SUPPLEMENTARY INFORMATION

SHELDON INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2015

Data Control Codes		Budgeted Amounts	
		Original	Final
	Revenues		
5700	Local and intermediate sources	\$ 58,315,841	\$ 58,477,229
5800	State program revenues	19,245,805	19,691,304
5900	Federal program revenues	1,360,000	1,360,000
5020	Total Revenues	78,921,646	79,528,533
	Expenditures		
	Current:		
0011	Instruction	44,661,825	45,326,795
0012	Instructional resources and media services	741,796	725,893
0013	Curriculum and staff development	153,286	148,904
0021	Instructional leadership	3,223,428	3,048,824
0023	School leadership	4,898,244	5,112,633
0031	Guidance, counseling and evaluation services	1,807,405	1,686,405
0032	Social work services	35,500	35,500
0033	Health services	622,291	642,291
0034	Student transportation	3,903,973	3,898,162
0036	Extracurricular activities	1,725,898	1,978,542
0041	General administration	2,485,644	2,688,227
0051	Facilities maintenance and operations	9,893,119	9,595,766
0052	Security and monitoring services	894,140	894,140
0053	Data processing services	909,203	1,114,688
0061	Community services	23,300	24,826
	Debt Service:		
0071	Principal on long-term debt	575,000	575,000
0072	Interest on long-term debt	177,400	177,400
	Capital outlay:		
0081	Facilities acquisition and construction	2,072,297	3,591,067
	Intergovernmental:		
0091	Contracted instructional services between schools	1,632,560	1,632,560
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	35,000	20,000
0099	Other intergovernmental charges	555,000	570,000
6030	Total Expenditures	81,026,309	83,487,623
1100	Excess (deficiency) of revenues over expenditures	(2,104,663)	(3,959,090)
	Other Financing Sources (Uses):		
7912	Sale of real or personal property	54,000	54,000
7949	Other resources	2,700	36,069
8911	Transfers out	(211,525)	(177,580)
7080	Total Other Financing Sources (Uses)	(154,825)	(87,511)
1200	Net change in fund balances	(2,259,488)	(4,046,601)
0100	Fund Balances - beginning	21,732,111	21,732,111
3000	Fund Balances - ending	\$ 19,472,623	\$ 17,685,510

Exhibit G-1

Actual Amounts, GAAP Basis	Variance with Final Budget - Positive (Negative)
\$ 57,514,973	\$ (962,256)
15,444,743	(4,246,561)
1,591,300	231,300
<u>74,551,016</u>	<u>(4,977,517)</u>
44,772,748	554,047
701,508	24,385
130,634	18,270
2,973,852	74,972
5,076,811	35,822
1,661,883	24,522
35,500	
622,093	20,198
3,682,744	215,418
1,742,951	235,591
2,588,902	99,325
8,702,232	893,534
852,393	41,747
1,087,932	26,756
12,580	12,246
575,000	
177,378	22
2,199,770	1,391,297
1,034,483	598,077
1,800	18,200
561,865	8,135
<u>79,195,059</u>	<u>4,292,564</u>
<u>(4,644,043)</u>	<u>(684,953)</u>
6,340	(47,660)
10,093	(25,976)
(253,413)	(75,833)
<u>(236,980)</u>	<u>(149,469)</u>
(4,881,023)	(834,422)
21,732,111	
<u>\$ 16,851,088</u>	<u>\$ (834,422)</u>

Budgets and Budgetary Accounting

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

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2015.

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

The official school budget was prepared for adoption for budgeted governmental fund types by August 25, 2014. 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

Exhibit G-3

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS*

For the Year Ended August 31, 2015

District's proportionate share of the net pension liability	\$ 10,381,059
State's proportionate share of the net pension liability associated with the District	<u>25,647,821</u>
Total	<u>\$ 36,028,880</u>
District's covered-employee payroll (for Measurement Year)	\$ 49,819,013
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	20.8%
Plan fiduciary net position as a percentage of the total pension liability *	83.25%
Plan's net pension liability as a percentage of covered-employee payroll *	72.89%

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

* Per Teacher Retirement System of Texas' comprehensive annual financial report.

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TWO FISCAL YEARS

Exhibit G-4

	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 1,755,911	\$ 1,000,226
Contributions in relation to the contractual required contributions	<u>1,755,911</u>	<u>1,000,226</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
 District's covered employee payroll	 \$ 54,422,769	 \$ 49,819,013
Contributions as a percentage of covered employee payroll	 3.23%	 2.01%

The District implemented GASB 68 and 71 during fiscal year 2015.

Changes in Assumptions

Modifications to the actuarial methods and assumptions are based on a study of actual experience as adopted on April 8, 2011. The assumptions used in the current valuation are the same except for the following modifications:

- Small reductions in rates of retirement at most age and service combinations
- Decrease in the post-retirement rates of mortality for both males and females
- The salary increase assumption in the first year of employment was reduced
- The method for determining the actuarial value of assets was modified to a method that sets the actuarial value of assets as expected actuarial value of assets plus 20% of the difference between the actual market value of the assets and the expected actuarial value of assets.

Amounts reported for 2014 reflect the adoption of a new mortality assumption that the average life expectancy for members over 65 years of age will increase by roughly nine months over the next four years.

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OTHER SUPPLEMENTARY INFORMATION

SHELDON INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2015

	211	224	225
Data Control Codes	ESEA Title I Part A	IDEA B Formula	IDEA B Preschool Grant
Assets			
1110	Cash and temporary investments	\$	\$ 26
	Receivables:		
1240	Receivables from other governments	5,381	34,280
1260	Due from other funds	36,939	
1310	Inventories, at cost		
1000	Total Assets	<u>\$ 42,320</u>	<u>\$ 34,306</u>
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$ 24,946	\$ 11,600
2160	Accrued wages payable	17,374	
2170	Due to other funds		22,706
2300	Unearned revenues		
2000	Total Liabilities	<u>42,320</u>	<u>34,306</u>
Fund Balance:			
Nonspendable:			
3410	Inventories		
Restricted:			
3450	Grant Funds		
3000	Total Fund Balance		
4000	Total Liabilities and Fund Balance	<u>\$ 42,320</u>	<u>\$ 34,306</u>

Exhibit H-1
Page 1 of 2

240	244	255	263
<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>
\$ 995,443	\$	\$ 7	\$ 9,707
161,864		68,550	41,372
205,000			
150,925			
<u>\$ 1,513,232</u>	<u>\$</u>	<u>\$ 68,557</u>	<u>\$ 51,079</u>
\$ 118,228	\$	\$	\$ 14,700
76,315			
149,982		68,557	36,379
43,047			
<u>387,572</u>	<u>\$</u>	<u>68,557</u>	<u>51,079</u>
150,925			
974,735			
<u>1,125,660</u>			
<u>\$ 1,513,232</u>	<u>\$</u>	<u>\$ 68,557</u>	<u>\$ 51,079</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2015

Data Control Codes	265	289	410
	21st Century Grant	Federally Funded Special Revenue Fund	Instructional Materials
Assets			
1110	Cash and temporary investments	\$ 80,214	\$ 306
	Receivables:		
1240	Receivables from other governments	14,937	289,695
1260	Due from other funds		
1310	Inventories, at cost		
1000	Total Assets	<u>\$ 95,151</u>	<u>\$ 290,001</u>
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 255,028
2160	Accrued wages payable		
2170	Due to other funds	95,151	34,973
2300	Unearned revenues		
2000	Total Liabilities	<u>95,151</u>	<u>290,001</u>
Fund Balance:			
Nonspendable:			
3410	Inventories		
Restricted:			
3450	Grant Funds		
3000	Total Fund Balance	<u></u>	<u></u>
4000	Total Liabilities and Fund Balance	<u>\$ 95,151</u>	<u>\$ 290,001</u>

411	418	465	481	482	Total Nonmajor Governmental Funds
Technology Allotment	Health Science	Pass Grant (ECHS)	Houston A+ Challenge	Summer College Readiness	
\$ 59	\$ 12,205	\$ 3,001	\$ 2,521	\$ 4,526	\$ 1,108,015
4,978	1,137				622,581
					241,939
					150,925
<u>\$ 5,037</u>	<u>\$ 13,342</u>	<u>\$ 3,001</u>	<u>\$ 2,521</u>	<u>\$ 4,526</u>	<u>\$ 2,123,460</u>
\$ 2	\$	\$ 135	\$	\$ 770	\$ 425,409
		158			93,847
5,035	13,342		309	464	427,285
					43,047
<u>5,037</u>	<u>13,342</u>	<u>293</u>	<u>309</u>	<u>1,234</u>	<u>989,588</u>
					150,925
		2,708	2,212	3,292	982,947
		<u>2,708</u>	<u>2,212</u>	<u>3,292</u>	<u>1,133,872</u>
<u>\$ 5,037</u>	<u>\$ 13,342</u>	<u>\$ 3,001</u>	<u>\$ 2,521</u>	<u>\$ 4,526</u>	<u>\$ 2,123,460</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

	211	224	225
Data Control Codes	ESEA Title I Part A	IDEA B Formula	IDEA B Preschool Grant
Revenues			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	1,735,240	1,235,690	13,039
5020 Total revenues	<u>1,735,240</u>	<u>1,235,690</u>	<u>13,039</u>
Expenditures			
Current:			
0011 Instruction	1,720,968	838,880	13,039
0021 Instructional leadership		28,002	
0031 Guidance, counseling and evaluation services		368,808	
0035 Food service			
0061 Community services	14,272		
6030 Total Expenditures	<u>1,735,240</u>	<u>1,235,690</u>	<u>13,039</u>
1200 Net change in fund balances			
0100 Fund Balance - beginning	<u> </u>	<u> </u>	<u> </u>
3000 Fund Balance - ending	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

240	244	255	263
<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>
\$ 742,649	\$	\$	\$
128,716			
<u>4,649,400</u>	<u>100,373</u>	<u>134,318</u>	<u>200,987</u>
<u>5,520,765</u>	<u>100,373</u>	<u>134,318</u>	<u>200,987</u>
	100,373	132,959 1,359	200,987
5,613,745			
<u>5,613,745</u>	<u>100,373</u>	<u>134,318</u>	<u>200,987</u>
(92,980)			
<u>1,218,640</u>			
<u>\$ 1,125,660</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

Data Control Codes		265	289	410
		21st Century Grant	Federally Funded Special Revenue Fund	Instructional Materials
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			709,369
5900	Federal program revenues	510,545	50,000	
5020	Total revenues	<u>510,545</u>	<u>50,000</u>	<u>709,369</u>
	Expenditures			
	Current:			
0011	Instruction	510,545	50,000	709,044
0021	Instructional leadership			325
0031	Guidance, counseling and evaluation services			
0035	Food service			
0061	Community services			
6030	Total Expenditures	<u>510,545</u>	<u>50,000</u>	<u>709,369</u>
1200	Net change in fund balances			
0100	Fund balance - beginning	<u> </u>	<u> </u>	<u> </u>
3000	Fund balance - ending	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

411	418	465	481	482	
Technology Allotment	Health Science	Pass Grant (ECHS)	Houston A+ Challenge	Summer College Readiness	Total Nonmajor Governmental Funds
\$ 78,385	\$ 30,797	\$ 47,785	\$	\$	\$ 790,434
					947,267
					8,629,592
<u>78,385</u>	<u>30,797</u>	<u>47,785</u>			<u>10,367,293</u>
78,385	30,797	45,077	2,096	2,459	4,435,609
					29,686
					368,808
					5,613,745
					14,272
<u>78,385</u>	<u>30,797</u>	<u>45,077</u>	<u>2,096</u>	<u>2,459</u>	<u>10,462,120</u>
		2,708	(2,096)	(2,459)	(94,827)
			4,308	5,751	1,228,699
<u>\$</u>	<u>\$</u>	<u>\$ 2,708</u>	<u>\$ 2,212</u>	<u>\$ 3,292</u>	<u>\$ 1,133,872</u>

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TEA REQUIRED INFORMATION

SHELDON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2015

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>3 Net Assessed/ Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 9/1/2014</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2006 and prior	Various	Various	Various	\$ 320,050
2007	1.37000	0.26400	2,167,878,396	59,652
2008	1.04000	0.39000	3,262,365,274	60,948
2009	1.04000	0.39000	3,383,408,252	88,911
2010	1.04000	0.39000	3,449,039,580	188,215
2011	1.04000	0.39000	3,243,212,098	194,925
2012	1.09000	0.34000	3,505,474,406	204,681
2013	1.09000	0.34000	3,638,719,292	266,922
2014	1.17000	0.26000	4,861,681,259	565,170
2015	1.17000	0.26000	4,931,143,966	
1000 Totals				<u>\$ 1,949,474</u>

Exhibit J-1

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/2015</u>
\$	\$ 13,732	\$ 1,862	\$ 1,176	\$ 305,632
	3,872	746	(78)	54,956
	4,776	1,791	(64)	54,317
	66,983	25,119	78,756	75,565
	72,351	27,132	84,761	173,493
	75,376	28,266	79,835	171,118
	93,950	29,305	87,709	169,135
	94,368	29,436	12,384	155,502
	402,106	89,357	215,805	289,512
<u>70,515,359</u>	<u>56,088,995</u>	<u>12,464,221</u>	<u>(16,323)</u>	<u>1,945,820</u>
<u>\$ 70,515,359</u>	<u>\$ 56,916,509</u>	<u>\$ 12,697,235</u>	<u>\$ 543,961</u>	<u>3,395,050</u>
				<u>Penalty and interest receivable on taxes</u>
				1,537,646
				<u>Total taxes receivable per Exhibit C-1</u>
				<u>\$ 4,932,696</u>

SHELDON INDEPENDENT SCHOOL DISTRICT*Exhibit J-3***FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)****GENERAL FUND***August 31, 2015*

Data Control Code	Explanation	Amount
1.	Total General Fund Balance as of 8-31-15 (Exhibit C-1 object 3000 for the General Fund only)	\$ 16,888,388
2.	Total Nonspendable Fund Balance 8-31-15 (from Exhibit C-1 - total of object 341X - 344X for the General Fund only)	357,298
3.	Total Restricted Fund Balance 8-31-15 (from Exhibit C-1 - total of object 345X - 349X for the General Fund only)	39,368
4.	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X - 354X for the General Fund only)	
5.	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	1,860,000
6.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	20,384,028
7.	Estimate of two month's average cash disbursements during the fiscal year	12,400,000
8.	Estimate of delayed payments from state sources (58xx)	
9.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10.	Estimate of delayed payments from federal sources (59xx)	
11.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of	
12.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10+11)	<u>35,040,694</u>
13.	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	<u>\$ (18,152,306)</u>

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

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit J-4

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION FUND

For the Year Ended August 31, 2015

Data Control Codes		Child Nutrition			
		Budget		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
Revenues					
5700	Local, intermediate, and out-of-state	\$ 701,020	\$ 695,843	\$ 742,649	\$ 46,806
5800	State program revenues	117,000	122,177	128,716	6,539
5900	Federal program revenues	4,431,980	4,431,980	4,649,400	217,420
5020	Total Revenues	<u>5,250,000</u>	<u>5,250,000</u>	<u>5,520,765</u>	<u>270,765</u>
Expenditures					
Current:					
0035	Food services	5,349,342	5,649,342	5,613,745	35,597
6030	Total Expenditures	<u>5,349,342</u>	<u>5,649,342</u>	<u>5,613,745</u>	<u>35,597</u>
1100	Excess (deficiency) revenues over expenditures	<u>(99,342)</u>	<u>(399,342)</u>	<u>(92,980)</u>	<u>306,362</u>
Other Financing Sources (Uses)					
7990	Other financing sources	99,342	169,342		(169,342)
7080	Total Other Financing Sources (Uses)	<u>99,342</u>	<u>169,342</u>		<u>(169,342)</u>
1200	Increase (decrease) in fund balance		(230,000)	(92,980)	137,020
0100	Fund Balance - beginning	<u>1,218,640</u>	<u>1,218,640</u>	<u>1,218,640</u>	
3000	Fund Balance - ending	<u>\$ 1,218,640</u>	<u>\$ 988,640</u>	<u>\$ 1,125,660</u>	<u>\$ 137,020</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2015

Data Control Codes	Debt Service Fund				
	Budget			Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local, intermediate, and out-of-state	\$ 12,942,000	\$ 12,982,000	\$ 13,056,641	\$ 74,641
5020	Total Revenues	<u>12,942,000</u>	<u>12,982,000</u>	<u>13,056,641</u>	<u>74,641</u>
Expenditures					
Current:					
Debt Service:					
0071	Principal on long-term debt	12,382,050	13,616,887	12,644,661	972,226
0072	Interest on long-term debt		6,681,236	6,507,708	173,528
0073	Bond issuance costs and fees		190,000	180,171	9,829
6030	Total Expenditures	<u>12,382,050</u>	<u>20,488,123</u>	<u>19,332,540</u>	<u>1,155,583</u>
1100	Excess (deficiency) revenues over expenditures	<u>559,950</u>	<u>(7,506,123)</u>	<u>(6,275,899)</u>	<u>1,230,224</u>
Other Financing Sources (Uses)					
7910	Bond pProceeds		14,045,000	11,655,000	(2,390,000)
7916	Premium			548,219	548,219
8949	Payment to refunded bond escrow agent		(16,045,000)	(14,038,727)	2,006,273
8989	Non-operating expenses	<u>(559,950)</u>	<u>(94,612)</u>	<u>-</u>	<u>94,612</u>
7080	Total Other Financing Sources (Uses)	<u>(559,950)</u>	<u>(2,094,612)</u>	<u>(1,835,508)</u>	<u>259,104</u>
1200	Increase (decrease) in fund balance		(9,600,735)	(8,111,407)	1,489,328
0100	Fund Balance - beginning	<u>28,305,452</u>	<u>28,305,452</u>	<u>28,305,452</u>	
3000	Fund Balance - ending	<u>\$ 28,305,452</u>	<u>\$ 18,704,717</u>	<u>\$ 20,194,045</u>	<u>\$ 1,489,328</u>

FEDERAL AWARDS SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District"), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 19, 2016.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Sheldon Independent School District

Compliance and Other Matters

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

Purpose of this Report

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

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

Houston, Texas
January 19, 2016

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

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

Report on Compliance for Each Major Federal Program

We have audited Sheldon Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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, 2015.

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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Whitley Penn LLP

Houston, Texas
January 19, 2016

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2015

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers

U.S. Department of Agriculture

Child Nutrition Cluster	
National School Lunch Program	10.555
School Breakfast Program	10.553
National School Lunch Program –Non Cash Assistance (Commodities)	10.555
Child and Adult Care Food Program	10.558

U.S. Department of Education

21 st Century Community Learning Centers	84.287C
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	Yes

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2015

II. Financial Statement Findings

None noted.

III. Federal Awards Findings and Questioned Costs

None noted.

IV. Status Of Prior Year Findings

N/A

V. Corrective Action Plan

N/A

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2015

Exhibit K-1

(2A)	(1)	(2)	(3)
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund	Federal CFDA Number Federal Expenditures
U.S. Department of Education			
Passed Through Texas Education Agency:			
15610101101924000	<i>ESEA Title I, Improving Basic Programs</i>	211	84.010A \$ 1,735,240
156600011019246600	<i>IDEA Part B - Formula*</i>	224	84.027A 1,235,690
156610011019246610	<i>IDEA Part B - Preschool*</i>	225	84.173A 13,039
15420006101924	<i>Carl D. Perkins, Basic Grant</i>	244	84.048A 100,373
15694501101924	<i>ESEA Title II, Part A - Teacher/Principal Training and Recruiting</i>	255	84.367A 134,318
15671001101924	<i>ESEA Title III, Part A - LEP</i>	263	84.365A 200,987
69551402	<i>LEP Summer School</i>	289	84.369A 16,696
Total passed through Texas Education Agency			<u>3,436,343</u>
Passed Through Harris County Department of Education:			
S287B010187	<i>21st Century Community Learning Centers</i>	265	84.287C <u>510,545</u>
Total U.S. Department of Education			<u>3,946,888</u>
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture:			
101924	<i>Child and Adult Care Food Program</i>	240	10.558 235,103
Child Nutrition Cluster:			
Non Cash Assistance (Commodities)			
101924	<i>National School Lunch Program**</i>	240	10.555 293,419
Passed Through State Department of Education:			
Cash Assistance:			
71301501	<i>National School Lunch Program**</i>	240	10.555 2,746,342
71401501	<i>School Breakfast Program**</i>	240	10.553 <u>1,374,536</u>
Total U.S. Department of Agriculture			<u>4,649,400</u>
U.S. Department of Health and Human Services			
Passed Through Harris County Department of Education:			
2814CCMC24	<i>Child Care and Development Funds - TWC Partnership</i>	289	93.596 50,000
Passed Through University of Houston Health Science Center Houston:			
008571E	<i>Abstinence Education</i>	199	93.235 <u>12,301</u>
Total U.S. Department of Health and Human Services			<u>62,301</u>
Total Expenditures of Federal Awards			<u>\$ 8,658,589</u>

*Special Education Cluster

**Child Nutrition Cluster

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies

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

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

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

Note 3 - Reconciliation to Basic Financial Statements

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

Federal Program Revenues (Per Exhibit C-3)	\$ 10,220,892
SHARS	(1,129,334)
Federal Interest Subsidy	(428,111)
E Rate	(4,858)
Expenditures of Federal Awards per SEFA	<u>\$ 8,658,589</u>

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SHELDON INDEPENDENT SCHOOL DISTRICT
REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
August 31, 2015

Exhibit L-1

Schedule L-1 – Required Responses to Selected School FIRST Indicators

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
Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
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
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
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
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
Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 0
Net Pension Assets (1920) at fiscal year-end.	\$ 0
Net Pension Liabilities (2540) at fiscal year-end.	\$ 10,381,059
Pension Expense (6147) at fiscal year-end.	\$ 959,546