

**SHELDON
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2011



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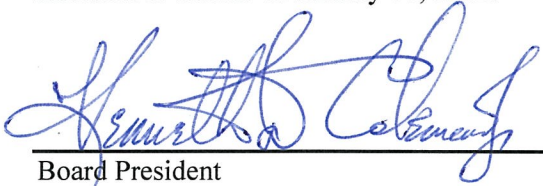
CERTIFICATE OF THE BOARD

Sheldon Independent School District
Name of School District

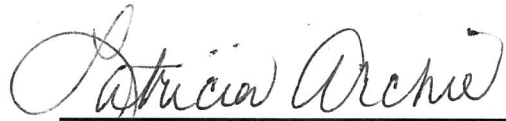
Harris
County

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, 2011, at a meeting of the board of trustees of such school district on January 17, 2012.



Board President



Board Secretary

Financial Section



Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sheldon Independent School District (the "District") as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Sheldon Independent School District
Houston, Texas
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 to 13 and pages 54 through 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual fund financial statements and required Texas Education Agency ("the TEA") schedules, except for those marked "unaudited" on which we express no opinion, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Texas City, Texas
January 17, 2012

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, 2011.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$56,447,543 (*net assets*). Of this amount, \$21,482,220 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to students and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$47,275,763 a decrease of \$6,563,189 in comparison with the prior year. The change in governmental fund balances was primarily due to the increase in the debt service fund balance of \$4,855,772 and the decrease in the capital projects fund balance of \$9,897,131.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,298,554 or 23 percent of total general fund expenditures.
- The District's total bonded debt increased by \$ 10,324,746 (6 percent) during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

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

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

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

Fund financial statements

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

Governmental funds

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

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

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

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

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

Proprietary fund

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

Fiduciary fund

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

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

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 through 51 of this report.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information can be found on pages 54 through 56 of this report.

Other information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and can be found on pages 58 through 69 of this report.

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$56,447,543 at the close of the most recent fiscal year.

The District's investment in capital assets (e.g., capitalized bond and debt issuance costs, land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets, amounted to \$8,012,014. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sheldon Independent School District's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 60,448,700	\$ 67,860,125	\$ 16,494	\$ 9,132	\$ 60,465,194	\$ 67,869,257
Capital and non current assets	178,160,123	157,791,483			178,160,123	157,791,483
Total Assets	238,608,823	225,651,608	16,494	9,132	238,625,317	225,660,740
Current liabilities	6,726,014	8,075,283	7,204	9,057	6,733,218	8,084,340
Long term liabilities	175,444,556	165,081,212			175,444,556	165,081,212
Total Liabilities	182,170,570	173,156,495	7,204	9,057	182,177,774	173,165,552
Net Assets						
Invested in capital assets net of related debt	8,012,014	6,261,527			8,012,014	6,261,527
Restricted	26,944,019	22,003,455			26,944,019	22,003,455
Unrestricted	21,482,220	24,230,131	9,290	75	21,491,510	24,230,206
Total Net Assets	\$ 56,438,253	\$ 52,495,113	\$ 9,290	\$ 75	\$ 56,447,543	\$ 52,495,188

Net assets of \$26,944,019 are restricted for state and federal programs, debt service and local grants. The remaining balance of *unrestricted net assets* \$21,482,220 may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The District's net assets increased by \$3,943,140 during the current fiscal year primarily due to increases in state aid.

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

	Sheldon Independent School District's Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges for services	\$ 874,059	\$ 870,409	\$ 293,862	\$ 223,507	\$ 1,167,921	\$ 1,093,916
Operating grants	12,818,545	12,768,942			12,818,545	12,768,942
General Revenues						
Property taxes	57,849,813	62,042,821			57,849,813	62,042,821
State aid	19,311,990	10,715,181			19,311,990	10,715,181
Grants and contributions not restricted		352,885				352,885
Interest earnings	461,586	434,935			461,586	434,935
Other	1,643,779	90,260			1,643,779	90,260
Total Revenues	92,959,772	87,275,433	293,862	223,507	93,253,634	87,498,940
Expenses						
Instruction	43,597,836	41,893,056			43,597,836	41,893,056
Instructional resources and media services	990,935	880,770			990,935	880,770
Curriculum and staff development	108,772	430,859			108,772	430,859
Instructional leadership	2,167,358	1,906,189			2,167,358	1,906,189
School leadership	3,975,657	4,005,886			3,975,657	4,005,886
Guidance, counseling, and evaluation services	2,023,869	2,054,922			2,023,869	2,054,922
Social work services	28,300	61,022			28,300	61,022
Health services	574,584	578,039			574,584	578,039
Student transportation	3,792,220	3,592,875			3,792,220	3,592,875
Food service	4,575,875	4,202,628			4,575,875	4,202,628
Extracurricular activities	2,048,410	1,881,397			2,048,410	1,881,397
General administration	2,052,938	2,106,759			2,052,938	2,106,759
Facilities maintenance and operations	8,012,116	8,065,714			8,012,116	8,065,714
Security and monitoring services	621,787	578,030			621,787	578,030
Data processing services	619,277	449,746			619,277	449,746
Community services	13,657	22,385	479,332	479,064	492,989	501,449
Interest on long-term debt	7,203,458	6,655,495			7,203,458	6,655,495
Bond issuance costs and fees	16,447				16,447	
Capital Outlay	1,590,860	534,946			1,590,860	534,946
Contracted instructional services between schools	4,323,874	102,548			4,323,874	102,548
Payments to Juvenile Justice Alternative Education Programs	1,100	18,900			1,100	18,900
Other intergovernmental charges	482,617	500,555			482,617	500,555
Total Expenses	88,821,947	80,522,721	479,332	479,064	89,301,279	81,001,785
Excess (deficiency) before special items and transfers	4,137,825	6,752,712	(185,470)	(255,557)	3,952,355	6,497,155
Transfers	(194,685)	(255,557)	194,685	255,557		
Increase (Decrease) in Net Assets	3,943,140	6,497,155	9,215	75	3,952,355	6,497,155
Beginning net assets	52,495,113	45,997,958	75	75	52,495,188	45,998,033
Ending Net Assets	\$ 56,438,253	\$ 52,495,113	\$ 9,290	\$ 75	\$ 56,447,543	\$ 52,495,188

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

Governmental activities

Governmental activities increased the District's net assets by \$3,943,140. Key elements of this increase are as follows:

Revenues are generated primarily from three sources. State Aid Formula Grant, operating grants and contributions (program and general revenues totaling (\$32,130,535) represent 35 percent of total revenues and property taxes (\$57,849,813) represent 62 percent of total revenues. The remaining 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$43,597,836), which represents 49 percent of total expenses. Plant maintenance and operations (\$8,012,116) represents 9 percent of total expenses. Interest on long-term debt (\$7,203,458) represents 8 percent of total expenses of the District. The remaining individual functional categories of expenses are each less than 6 percent of total expenses. For the most part, increases in expenses clearly paralleled student growth in the District.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$47,275,763, a decrease of \$6,563,189 in comparison with the prior year. The change in governmental fund balances was primarily due to the increase in the debt service fund balance offset by the decrease in the capital projects fund balance.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$15,298,554, while total fund balance reached \$18,982,370. 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 23 percent of total general fund expenditures, while total fund balance represents 28 percent of that same amount.

The fund balance of the District's general fund decreased by \$1,309,453 during the current fiscal year primarily due to expenditures incurred for contracted instructional services between schools.

The debt service fund has a total fund balance of \$25,377,786, all of which is restricted for the payment of debt service. The net increase in the debt service fund balance during the current year of \$4,855,772 was attributable to increases in local tax revenues resulting from higher than estimated property values and additions to sinking funds for repayment of bonds.

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

The capital projects fund has a total fund balance of \$2,342,474, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance during the current year of \$9,897,131 was primarily due to the completion of construction projects during the year.

General Fund Budgetary Highlights

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

	Estimated Revenues
Original	\$ 62,413,284
Final	63,775,120
Total estimated revenues increase	\$ 1,361,836
	Appropriations
Original	\$ 65,314,975
Final	70,084,106
Total appropriations increase	\$ 4,769,131

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

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2011, amounts to \$178,160,123 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 13 percent.

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

- Construction completed for Elementary School #5, Garrett Elementary, with a total cost of \$14.8 million.
- Transportation and maintenance complex was completed with a total cost of \$8.1 million.
- Network Operations Center was completed for a total cost of \$4.1 million.

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

Sheldon Independent School District's Capital Assets

	Balance August 31, 2010	Additions	Retirements and Transfers	Balance August 31, 2011
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Buildings and improvements	187,438,641	23,793,222	3,168,604	214,400,467
Furniture and equipment	8,657,973	1,251,819	(197,703)	9,712,089
Construction in progress	3,168,604		(3,168,604)	
	<u>205,040,414</u>	<u>25,045,041</u>	<u>(197,703)</u>	<u>229,887,752</u>
Less accumulated depreciation for:				
Buildings and improvements	(42,223,907)	(3,935,900)		(46,159,807)
Furniture and Equipment	(5,025,024)	(740,501)	197,703	(5,567,822)
	<u>(47,248,931)</u>	<u>(4,676,401)</u>	<u>197,703</u>	<u>(51,727,629)</u>
Governmental Capital Assets	<u>\$ 157,791,483</u>	<u>\$ 20,368,640</u>	<u>\$</u>	<u>\$ 178,160,123</u>

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

Long-term liabilities

At the end of the current fiscal year, the District had \$173,722,379 in bonded debt outstanding, an increase of \$10,324,746 over the previous year. The District's bonds are sold with a "Aaa" rating and are guaranteed through the Texas Permanent School Fund Guarantee Program or by a municipal bond insurance policy. The underlying rating of the bonds from Standard and Poor's is "A+" and from Moody's Investors Service is "Aa2" for general obligation debt.

Changes to long-term debt, for the year ended August 31, 2011, are as follows:

Sheldon Independent School District's Long-term Liabilities

	Balance August 31, 2010	Additions	Retirements	Balance August 31, 2011
General obligation bonds	\$ 163,397,633	\$ 14,804,450	\$ 4,479,704	\$ 173,722,379
Plus amounts for issuance premiums	1,748,825	243,153	105,682	1,886,296
Gain or loss on refunding bonds	(1,376,898)		(86,927)	(1,289,971)
Accreted interest on premium compound interest bonds	1,311,652	309,496	495,296	1,125,852
	<u>\$ 165,081,212</u>	<u>\$ 15,357,099</u>	<u>\$ 4,993,755</u>	<u>\$ 175,444,556</u>

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

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

Economic Factors and Next Year's Budgets and Tax Rates

- Peak enrollment totaled 6,872 students, which is a 5 percent increase from the prior year. Enrollment growth is projected to continue at this rate.
- District staff totals 1,063 employees, which primarily consists of 507 teachers, 191 paraprofessionals and 234 auxiliary staff.
- The District maintains 10 campuses for instruction.
- The economic growth in the area will help the District offset any taxable property value declines.
- During the November 2011 general election, the voters of the District approved an increase of 5 cents to M&O taxes along with a reduction of 5 cents to I&S taxes. The total property tax will remain at \$1.43 per \$100 of assessed value for 2011-12.
- The District is facing a state funding reduction of \$3.8 million for the 2011-12 budget year. M&O tax increase and budget cuts are approved to balance the 2011-12 budget.

All of these factors were considered in preparing the District's budget for the 2012 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.

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Basic Financial Statements

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SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
August 31, 2011

Exhibit A-1

Data Control Codes		Governmental Activities	Business-type Activities	Total
	Assets			
1110	Cash and Cash Equivalents	\$ 41,622,180	\$ 16,494	\$ 41,638,674
1220	Delinquent Property Taxes Receivables	5,464,297		5,464,297
1240	Due from Other Governments	2,481,394		2,481,394
1250	Accrued Interest	70		70
1267	Due from Fiduciary Funds	38		38
1290	Other Receivables (net)	260,636		260,636
1300	Inventories	502,277		502,277
1420	Capital Bond & Other Debt Issuance Cost	1,828,121		1,828,121
	Capital Assets, not subject to depreciation:			
1510	Land	5,775,196		5,775,196
	Capital Assets, net of accumulated depreciation:			
1520	Buildings and improvements, net	168,240,660		168,240,660
1530	Furniture and equipment, net	4,144,267		4,144,267
1810	Restricted Cash and Temporary Investments	8,289,687		8,289,687
1000	Total Assets	238,608,823	16,494	238,625,317
	Liabilities			
2110	Accounts Payable	2,980,699	1,184	2,981,883
2140	Interest Payable	346,175		346,175
2150	Payroll Deductions and Withholdings	741,304		741,304
2160	Accrued Wages Payable	2,411,234	6,020	2,417,254
2177	Due to Fiduciary Funds	750		750
2180	Due to Other Governments	217,652		217,652
2200	Accrued Expenses	69		69
2300	Unearned Revenue	28,131		28,131
	Noncurrent Liabilities:			
2501	Due within one year	6,517,848		6,517,848
2502	Due in more than one year	168,926,708		168,926,708
2000	Total Liabilities	182,170,570	7,204	182,177,774
	Net Assets			
3200	Invested in capital assets, net of related debt	8,012,014		8,012,014
	Restricted for:			
3820	Federal and state programs	582,155		582,155
3850	Debt service	26,361,864		26,361,864
3900	Unrestricted	21,482,220	9,290	21,491,510
3000	Total net assets	\$ 56,438,253	\$ 9,290	\$ 56,447,543

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2011

Data Control Codes	Functions/Programs	Expenses	Program Revenue	
			Charges for Services	Operating Grants and Contributions
	Governmental activities:			
11	Instruction	\$ 43,597,836	\$ 21,350	\$ 7,222,878
12	Instructional resources and media services	990,935		36,335
13	Curriculum and staff development	108,772		35,806
21	Instructional leadership	2,167,358		175,553
23	School leadership	3,975,657		280,457
31	Guidance, counseling, and evaluation services	2,023,869		256,210
32	Social work services	28,300		
33	Health services	574,584		56,063
34	Student transportation	3,792,220		121,605
35	Food service	4,575,875	662,864	3,731,354
36	Extracurricular activities	2,048,410	176,196	29,388
41	General administration	2,052,938		79,008
51	Facilities maintenance and operations	8,012,116	13,649	196,887
52	Security and monitoring services	621,787		
53	Data processing services	619,277		4,161
61	Community services	13,657		11,584
72	Interest on long-term debt	7,203,458		581,256
73	Bond issuance costs and fees	16,447		
81	Capital Outlay	1,590,860		
91	Contracted instructional services between schools	4,323,874		
95	Payments to Juvenile Justice Alternative Education Programs	1,100		
99	Payments to appraisal districts	482,617		
TG	Total governmental activities	<u>88,821,947</u>	<u>874,059</u>	<u>12,818,545</u>
	Business-type activities			
01	Early Learning Center - Daycare	479,332	293,862	
TB	Total business-type activities	<u>479,332</u>	<u>293,862</u>	
TP	Total primary government	<u>\$ 89,301,279</u>	<u>\$ 1,167,921</u>	<u>\$ 12,818,545</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 transfers
CN	Change in net assets
NB	Net assets - beginning
NE	Net assets - ending

See Notes to the Financial Statements

Exhibit B-1

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (36,353,608)		\$ (36,353,608)
(954,600)		(954,600)
(72,966)		(72,966)
(1,991,805)		(1,991,805)
(3,695,200)		(3,695,200)
(1,767,659)		(1,767,659)
(28,300)		(28,300)
(518,521)		(518,521)
(3,670,615)		(3,670,615)
(181,657)		(181,657)
(1,842,826)		(1,842,826)
(1,973,930)		(1,973,930)
(7,801,580)		(7,801,580)
(621,787)		(621,787)
(615,116)		(615,116)
(2,073)		(2,073)
(6,622,202)		(6,622,202)
(16,447)		(16,447)
(1,590,860)		(1,590,860)
(4,323,874)		(4,323,874)
(1,100)		(1,100)
(482,617)		(482,617)
<u>(75,129,343)</u>		<u>(75,129,343)</u>
	<u>(185,470)</u>	<u>(185,470)</u>
	<u>(185,470)</u>	<u>(185,470)</u>
<u>(75,129,343)</u>	<u>(185,470)</u>	<u>(75,314,813)</u>
41,929,787		41,929,787
15,920,026		15,920,026
19,311,990		19,311,990
461,586		461,586
1,643,779		1,643,779
(194,685)	194,685	
<u>79,072,483</u>	<u>194,685</u>	<u>79,267,168</u>
3,943,140	9,215	3,952,355
<u>52,495,113</u>	<u>75</u>	<u>52,495,188</u>
<u>\$ 56,438,253</u>	<u>\$ 9,290</u>	<u>\$ 56,447,543</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2011

Data Control Codes	General Fund	Debt Service Fund	Capital Projects Fund
Assets			
1110	\$ 19,989,211	\$ 16,468,804	\$ 4,303,948
Receivables:			
1220	5,700,227	1,743,798	
1230	(1,647,063)	(332,665)	
1240	1,668,224		
1250	70		
1260	904,820	538,415	180,073
1290	260,636		
1300	421,648		
1810		8,289,687	
1000 Total Assets	\$ 27,297,773	\$ 26,708,039	\$ 4,484,021
 Liabilities and Fund Balance			
Liabilities:			
2110	\$ 669,384	\$	\$ 2,141,547
2150	741,304		
2160	2,317,431		
2170	719,265		
2180	217,652		
2200	Accrued expenditures		
2300	3,650,367	1,330,253	
2000 Total Liabilities	8,315,403	1,330,253	2,141,547
 Fund Balance:			
Nonspendable:			
3410	421,648		
Restricted:			
3450	14,437		
3470			2,342,474
3480		25,377,786	
Assigned:			
3590	3,247,731		
3600	15,298,554		
3000 Total fund balances	18,982,370	25,377,786	2,342,474
4000 Total Liabilities and Fund Balances	\$ 27,297,773	\$ 26,708,039	\$ 4,484,021

See Notes to the Financial Statements.

Exhibit C-1

Other Governmental Funds	Total Governmental Funds
\$ 860,217	\$ 41,622,180
	7,444,025
	(1,979,728)
813,170	2,481,394
	70
27	1,623,335
	260,636
80,629	502,277
	8,289,687
<u>\$ 1,754,043</u>	<u>\$ 60,243,876</u>
\$ 169,768	\$ 2,980,699
	741,304
93,803	2,411,234
904,782	1,624,047
	217,652
69	69
12,488	4,993,108
<u>1,180,910</u>	<u>12,968,113</u>
80,629	502,277
492,504	506,941
	2,342,474
	25,377,786
	3,247,731
	15,298,554
<u>573,133</u>	<u>47,275,763</u>
<u>\$ 1,754,043</u>	<u>\$ 60,243,876</u>

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SHELDON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET ASSETS
August 31, 2011

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 47,275,763
	Amounts reported for <i>governmental activities</i> in the statement of net assets (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	178,160,123
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	4,964,977
3	Bond issuance costs are not financial resources and, therefore, are not reported as assets in governmental funds. These costs are to be amortized over the life of the bonds.	1,828,121
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
4	General obligation bonds	(173,722,379)
5	Premiums on issuance	(1,886,296)
6	Deferred loss on refunding	1,289,971
7	Accreted interest on premium compound interest bonds	(1,125,852)
8	Accrued interest payable	(346,175)
19	Total net assets - governmental activities	<u>\$ 56,438,253</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, 2011

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
Revenues				
5700	Local, intermediate, and out-of-state	\$ 42,222,098	\$ 16,006,368	\$ 21,810
5800	State program revenues	21,837,743		
5900	Federal program revenues	2,085,761		
5020	Total revenues	<u>66,145,602</u>	<u>16,006,368</u>	<u>21,810</u>
Expenditures				
Current:				
0011	Instruction	35,067,005		
0012	Instructional resources and media services	867,987		
0013	Curriculum and staff development	73,296		
0021	Instructional leadership	2,078,391		
0023	School leadership	3,782,655		
0031	Guidance, counseling and evaluation services	1,827,970		
0032	Social work services	28,300		
0033	Health services	506,693		
0034	Student transportation	3,252,861		
0035	Food services			
0036	Extracurricular activities	1,680,053		
0041	General administration	2,011,955		
0051	Facilities maintenance and operations	7,931,489		
0052	Security and monitoring services	621,787		
0053	Data processing services	641,887		
0061	Community services	2,073		
Debt service:				
0071	Principal and interest on long-term debt	480,000	3,999,704	
0072	Interest on long-term debt	258,656	7,261,748	
0073	Bond issuance costs and fees		16,447	
Capital outlay:				
0081	Capital outlay	1,217,880		25,081,892
Intergovernmental:				
0091	Contracted instructional services between schools	4,323,874		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	1,100		
0099	Payments to appraisal districts	482,617		
6030	Total Expenditures	<u>67,138,529</u>	<u>11,277,899</u>	<u>25,081,892</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(992,927)</u>	<u>4,728,469</u>	<u>(25,060,082)</u>
Other Financing Sources (Uses)				
7911	Capital-related debt issued			14,804,450
7912	Sale of real or personal property	9,300		
7916	Premium or discount on issuance of bonds		127,303	358,501
7989	Other non-operating revenues	17,715		
8911	Transfers out	(194,685)		
8949	Refunds to State	(148,856)		
7080	Total other financing sources (uses)	<u>(316,526)</u>	<u>127,303</u>	<u>15,162,951</u>
1200	Net change in fund balances	(1,309,453)	4,855,772	(9,897,131)
0100	Fund Balance - beginning	<u>20,291,823</u>	<u>20,522,014</u>	<u>12,239,605</u>
3000	Fund Balance - ending	<u>\$ 18,982,370</u>	<u>\$ 25,377,786</u>	<u>\$ 2,342,474</u>

See Notes to the Financial Statements.

Exhibit C-3

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 664,099	\$ 58,914,375
631,970	22,469,713
9,079,566	11,165,327
<u>10,375,635</u>	<u>92,549,415</u>
5,636,136	40,703,141
	867,987
35,476	108,772
47,984	2,126,375
70,054	3,852,709
154,916	1,982,886
	28,300
26,908	533,601
	3,252,861
4,599,534	4,599,534
	1,680,053
	2,011,955
5,420	7,936,909
	621,787
	641,887
11,584	13,657
	4,479,704
	7,520,404
	16,447
	26,299,772
	4,323,874
	1,100
	482,617
<u>10,588,012</u>	<u>114,086,332</u>
<u>(212,377)</u>	<u>(21,536,917)</u>
	14,804,450
	9,300
	485,804
	17,715
	(194,685)
	(148,856)
	<u>14,973,728</u>
(212,377)	(6,563,189)
<u>785,510</u>	<u>53,838,952</u>
<u>\$ 573,133</u>	<u>\$ 47,275,763</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, 2011

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (6,563,189)
	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	25,045,041
	Depreciation Expense	(4,676,401)
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	383,343
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.	4,479,704
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.	(15,290,254)
5	Bond issuance costs paid during the current year will be amortized over the life of the bonds.	247,951
	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:	
6	Increase in interest payable not recognized in fund statements	(28,714)
7	Accreted interest on capital appreciation bonds and amortization of bond issuance costs and deferred loss on refunding	<u>345,659</u>
	Change in net assets of governmental activities (see B-1)	<u><u>\$ 3,943,140</u></u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET ASSETS

PROPRIETARY FUND

August 31, 2011

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	Assets	
	Current Assets:	
1110	Cash and cash equivalents	\$ 16,494
1000	Total Assets	<u>\$ 16,494</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	\$ 1,184
2160	Accrued wages payable	<u>6,020</u>
2000	Total Liabilities	<u>7,204</u>
	Net Assets	
3900	Unrestricted net assets	9,290
3000	Total Net Assets	<u>\$ 9,290</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended August 31, 2011

Exhibit D-2

<u>Data Control Codes</u>		<u>Enterprise Funds</u>
		<u>Early Learning Center - Daycare</u>
	Operating Revenues	
5739	Tuition	\$ 293,862
5020	Total Operating Revenues	<u>293,862</u>
	Operating Expenses	
6100	Payroll costs	448,941
6200	Purchased and contracted services	1,027
6300	Supplies and materials	7,725
6400	Claims expense and other operating expenses	21,639
6030	Total Operating Expenses	<u>479,332</u>
	Income (Loss) before Transfers	(185,470)
	Transfers	
7915	Transfers in	<u>194,685</u>
1200	Change in Net Assets	9,215
0100	Net Assets - beginning	<u>75</u>
3300	Net Assets - ending	<u><u>\$ 9,290</u></u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT*Exhibit D-3***STATEMENT OF CASH FLOWS****PROPRIETARY FUND***Year Ended August 31, 2011*

	<u>Enterprise Funds</u>
	<u>Early Learning Center - Daycare</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 293,862
Cash payments to suppliers for goods and services	(27,988)
Cash payments to employees	(450,645)
Net Cash Provided by (Used for) Operating Activities	<u>(184,771)</u>
Cash Flows from Non-Capital Financing Activities:	
Advances from other funds	194,685
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>194,685</u>
Net Increase in Cash and Cash Equivalents	9,914
Cash and Cash Equivalents at Beginning of Year	6,580
Cash and Cash Equivalents at End of Year	<u>\$ 16,494</u>
Reconciliation to Balance Sheet	
Cash and Cash Equivalents Per Cash Flow	\$ 16,494
Cash and Cash Equivalents per Balance Sheet	<u>\$ 16,494</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (185,470)
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	2,403
Increase (decrease) in Accrued Wages Payable	(1,704)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (184,771)</u>

See Notes to the Financial Statements

SHELDON INDEPENDENT SCHOOL DISTRICT*Exhibit E-1***STATEMENT OF FIDUCIARY NET ASSETS***August 31, 2011*

<u>Data Control Codes</u>		<u>810 Scholarship Fund</u>	<u>865 Student Activity Fund</u>
	Assets		
1110	Cash and cash equivalents	\$ 207,669	\$ 177,851
	Receivables:		
1250	Interest receivable	257	133
1260	Due from other Funds	750	
1000	Total Assets	<u>\$ 208,676</u>	<u>\$ 177,984</u>
	Liabilities		
2170	Due to other funds	\$	\$ 38
2190	Due to student groups	31,402	177,946
2000	Total Liabilities	<u>31,402</u>	<u>177,984</u>
	Net Assets		
3800	Reserved for scholarships	<u>\$ 177,274</u>	

See Notes to the Financial Statements.

SHELDON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended August 31, 2011

Exhibit E-2

	810 Scholarship Fund
	<u> </u>
Additions	
Gifts and contributions	\$ 46,423
Earnings on investments	2,225
Total Additions	<u>48,648</u>
Deductions	
Scholarships awarded	46,994
Total deductions	<u>46,994</u>
Change in net assets	1,654
Net assets, beginning of year	<u>175,620</u>
Net assets, end of year	<u><u>\$ 177,274</u></u>

See Notes to the Financial Statements.

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Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Government-wide and Fund Financial Statements

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

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

Deposits and Investments

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

Investments for the District are reported at fair value based on quoted market prices at August 31, 2011. 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 when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Harris County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Note 1 - Summary of Significant Accounting Policies (continued)

Inventories and Prepaid Items

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

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

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental column in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

Compensated Absences

The District's employees earn sick leave and vacation benefits which may be accumulated each year. The District's policy permits employees, upon retirement, who have worked in the District for a minimum of three consecutive years prior to their retirement to be compensated for their accumulated unused sick leave at their daily rate of pay, not to exceed the daily cost of a degreed substitute teacher. The District estimates that the liability for accumulated unpaid sick leave for all employees eligible to be \$128,383 as of August 31, 2011.

Note 1 - Summary of Significant Accounting Policies (continued)

Long-term Obligations

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

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

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

Fund Equity

Beginning with fiscal year 2011, Sheldon Independent School District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

State Aid Adjustments	\$	815,000
Wealth Equalization Payments		850,000
Encumbrances		75,039
Emergency Repairs		1,500,000
Activity Fund		7,692
	<u>\$</u>	<u>3,247,731</u>

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

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

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

Data Control Codes

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

Use of Estimates

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

Comparative Data/Reclassifications

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

Note 2 - Deposits and Investments

Cash Deposits

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

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

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

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

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

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

Note 2 - Deposits and Investments (continued)

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

Investments

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

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

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

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

Note 2 - Deposits and Investments (continued)

A summary of the District's cash and investments at August 31, 2011, are shown below:

	<u>Cash and Deposits</u>	<u>Money Market Accounts</u>	<u>External Investment Pools</u>	<u>Investment Securities</u>	<u>Total</u>
Governmental Funds					
General Fund	\$ 2,944,983	\$ 103,361	\$ 16,940,867	\$	\$ 19,989,211
Debt Service Fund	889	157,777	16,313,499	8,286,326	24,758,491
Capital Projects Fund	4,560	92,327	4,207,061		4,303,948
Non-major Governmental Funds	80,472	717,924	61,971		860,367
Total Governmental Funds	<u>3,030,904</u>	<u>1,071,389</u>	<u>37,523,398</u>	<u>8,286,326</u>	<u>49,912,017</u>
Proprietary Funds	<u>16,494</u>				<u>16,494</u>
Fiduciary Funds	<u>385,370</u>				<u>385,370</u>
Total Cash and Investments	<u>\$ 3,432,768</u>	<u>\$ 1,071,389</u>	<u>\$ 37,523,398</u>	<u>\$ 8,286,326</u>	<u>\$ 50,313,881</u>

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

Investments

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

The following table includes the portfolio balance, credit rating and percentage of the portfolio balance by investment type of the District as of August 31, 2011:

Investment Type	<u>Fair Market Value</u>	<u>S & P Credit Quality Ratings</u>	<u>Percentage of Investments</u>
Local Government Investment Pools			
Lone Star	\$ 20,855,165	AAA	44.49%
TexStar	16,668,233	AAAm	35.55%
	<u>37,523,398</u>		
Investment Securities			
Federal National Mortgage Assn	7,225,281	AA+	15.41%
Federal Home Loan Mortgage Corp	1,061,045	AA+	2.26%
Money Market Mutual Fund	1,071,389	Not Rated	2.29%
	<u>9,357,715</u>		
Total Investments	<u>\$ 46,881,113</u>		

Note 2 - Deposits and Investments (continued)

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

Local Government Investment Pools

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

TexSTAR and Lone Star policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act of 1995, as amended. The value of the District's portion in TexSTAR and Lone Star are the same as the value of the shares. The external investment pool funds operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. The external investment pool funds use amortized cost rather than market value to report net assets to compute share price. Accordingly, the fair value of the positions of the pooled funds are the same as the value of the external investments pool funds shares. The funds are structured similar to a money market mutual fund which allows shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. At August 31, 2011, TexSTAR and Lone Star had a weighted average maturity of 45 days and 38 days, respectively. Although the external investment pool funds had a weighted average maturity of more than one day, the District considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Oversight Responsibility

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

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

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

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

Note 2 - Deposits and Investments (continued)

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

	Fair Market Value	Weighted Average Maturity (Days)
Cash and deposits	\$ 3,210,965	1
Certificates of deposit	221,803	136
Investments:		
Local Government Investment Pools:		
Lone Star	20,855,165	38
TexStar	16,668,233	45
Investment Securities:		
Federal National Mortgage Assn	7,225,281	91
Federal Home Loan Mortgage Corp	1,061,045	106
Money Market Mutual Fund	1,071,389	1
Total Investments	<u>46,881,113</u>	<u>93</u>
Total Cash and Investments	<u>\$ 50,313,881</u>	

Interest Rate Risk

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

Credit Risk:

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized credit rating organizations. As of August 31, 2011, the District's investment in TexSTAR was rated AAAM by Standard and Poor's. The District's investment in Lone Star Investment Pool was rated AAA by Standard and Poor's.

Concentration of Credit Risk

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

The investments are reported by the District at fair value. The amount of increase in the fair value of these investments during the year ended August 31, 2011, is included in investment earnings as follows:

Investment earnings	\$ 269,276
Net increase (decrease) in investment values	<u>192,310</u>
Total Investment earnings	<u>\$ 461,586</u>

Note 3 - Receivables

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

Property tax rates, established in accordance with state law, are levied on real and personal property within the District's boundaries for use in financing general government and debt service expenditures. Tax rates levied to finance general government and debt service expenditures for 2010-2011 were \$1.04 and \$0.39, respectively, based on an adjusted assessed property valuation of approximately \$3.24 billion resulting in an adjusted tax levy of approximately \$46.4 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, 2011, consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor and Fiduciary Funds</u>	<u>Total</u>
Property Taxes	\$ 5,700,227	\$ 1,743,798	\$	\$ 7,444,025
Due from other governments	1,668,224		813,170	2,481,394
Interest	70			70
Other	260,636			260,636
Gross Receivables	7,629,157	1,743,798	813,170	10,186,125
Less allowance for doubtful accounts	(1,647,063)	(332,665)		(1,979,728)
Net Total Receivables	<u>\$ 5,982,094</u>	<u>\$ 1,411,133</u>	<u>\$ 813,170</u>	<u>\$ 8,206,397</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General Fund)	\$ 3,634,724	\$
Delinquent property taxes receivable (Debt Service Fund)	1,330,253	
Advanced collection of fees		27,821
Grant funds received prior to meeting all eligibility requirements		310
	<u>\$ 4,964,977</u>	<u>\$ 28,131</u>

Note 4 - Due from other Governments

Amounts reported as due from other governments consist primarily of receivables due from state agencies for federal grant expenditure reimbursement 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, 2011, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 904,820	\$ 719,265
Debt Service Fund	538,415	
Capital Projects Fund	180,073	
Fiduciary Funds	750	38
Nonmajor Funds	27	904,782
	<u>\$ 1,624,085</u>	<u>\$ 1,624,085</u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” The following is a summary of the District’s transfers for the year ended August 31, 2011:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Proprietary Fund	\$ 194,685

Note 6 - Capital Assets

Changes in Capital Assets

A summary of changes in general fixed assets for the year ended August 31, 2011, are as follows:

	<u>Balance August 31, 2010</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 5,775,196	\$	\$	\$ 5,775,196
Construction in progress	3,168,604		(3,168,604)	
Total Capital assets, not being depreciated	<u>8,943,800</u>		<u>(3,168,604)</u>	<u>5,775,196</u>
Capital assets, being depreciated:				
Buildings and improvements	187,438,641	23,793,222	3,168,604	214,400,467
Furniture and equipment	8,657,973	1,251,819	(197,703)	9,712,089
Total Capital assets, being depreciated	<u>196,096,614</u>	<u>25,045,041</u>	<u>2,970,901</u>	<u>224,112,556</u>
Less accumulated depreciation for:				
Buildings and improvements	(42,223,907)	(3,935,900)		(46,159,807)
Furniture and Equipment	(5,025,024)	(740,501)	197,703	(5,567,822)
Total Accumulated depreciation	<u>(47,248,931)</u>	<u>(4,676,401)</u>	<u>197,703</u>	<u>(51,727,629)</u>
Governmental Capital Assets	<u>\$ 157,791,483</u>	<u>\$ 20,368,640</u>	<u>\$</u>	<u>\$ 178,160,123</u>

Note 6 - Capital Assets (continued)

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

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 2,745,839
Instructional resources and media services	122,948
Instructional leadership	40,983
School leadership	122,948
Guidance, counseling and evaluation services	40,983
Health services	40,983
Student transportation	539,359
Food Services	343,588
Extracurricular activities	391,891
General administration	40,983
Plant maintenance and operations	204,913
Data processing services	40,983
	<u>\$ 4,676,401</u>

The District did not have active construction projects as of August 31, 2011.

Note 7 - Long-Term Debt and Debt Service Requirements

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

A summary of general long-term debt transactions of the District for the year ended August 31, 2011, follows:

	<u>Balance August 31, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2011</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 163,397,633	\$ 14,804,450	\$ 4,479,704	\$ 173,722,379	\$ 6,130,111
Less deferred amounts:					
For issuance premiums/discounts	1,748,825	243,153	105,682	1,886,296	
Gain or loss on refunding bonds	(1,376,898)		(86,927)	(1,289,971)	
Accreted interest on premium compound interest bonds	1,311,652	309,496	495,296	1,125,852	387,737
	<u>\$ 165,081,212</u>	<u>\$ 15,357,099</u>	<u>\$ 4,993,755</u>	<u>\$ 175,444,556</u>	<u>\$ 6,517,848</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (continued)

Exhibit F-1

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

Bonded long-term debt, at August 31, 2011, is comprised of the following individual issues:

<u>Issue</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Unlimited Tax School Building Bonds, Series 2000B	2.30% to 2.55%	2012	\$ 2,150,000
Unlimited Tax School Building Bonds, Series 2001B	0%	2024	8,000,000
Unlimited Tax School Building Bonds, Series 2002	3.40% to 4.00%	2027	1,210,000
Unlimited Tax School Building and Refunding Bonds, Series 2003A	2.00% to 5.25%	2028	14,800,000
Unlimited Tax School Building and Refunding Bonds, Series 2004	4.50% to 5.125%	2029	6,030,000
Unlimited Tax School Building Bonds, Series 2005	0%	2020	3,000,000
Unlimited Tax School Building Bonds, Series 2005	3.70% to 6.00%	2035	8,825,000
Maintenance Tax Notes, Series 2006	3.875% to 4.125%	2021	6,175,000
Unlimited Tax School Building Bonds, Series 2006	4.00% to 5.00%	2036	15,175,000
Unlimited Tax School Building and Refunding Bonds, Series 2007	4.25% to 7.00%	2037	44,727,819
Unlimited Tax School Building Bonds, Series 2008	4.25% to 7.00%	2038	16,835,000
Unlimited Tax Refunding Bonds, Series 2009	2.00% to 3.125%	2019	5,060,000
Unlimited Tax Refunding Bonds, Series 2010	2.00% to 4.50%	2027	18,730,110
Unlimited Qualified School Construction Bonds, Series 2010	5.63%	2027	8,200,000
Unlimited Tax School Building Bonds, Series 2010A	4.0-4.5%	2040	8,804,450
Unlimited Tax School Building Bonds, Series 2011	4.0-4.5%	2041	6,000,000
			<u>\$ 173,722,379</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, 2011, follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 6,130,111	\$ 7,448,795	\$ 13,578,906
2013	4,564,017	6,861,725	11,425,742
2014	4,363,590	7,058,833	11,422,423
2015	12,669,661	6,934,163	19,603,824
2016-2020	33,340,000	29,723,747	63,063,747
2021-2025	34,820,000	22,661,431	57,481,431
2026-2030	38,320,000	13,033,122	51,353,122
2031-2035	25,885,000	6,272,815	32,157,815
2036-2040	13,245,000	1,026,900	14,271,900
2041-2045	385,000	9,625	394,625
	<u>\$ 173,722,379</u>	<u>\$ 101,031,156</u>	<u>\$ 274,753,535</u>

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

Accreted Interest on Premium Compound Interest Bonds

A portion of the bonds sold in the Series 2007 bond issue, Refunding Series 2009, Refunding Series 2010 and Series 2010A were capital appreciation bonds commonly referred to as "premium compound interest bonds". The District annually records the appreciation of bond principal for the accreted value of the bonds through maturity of the issue. The interest of these bond series will be paid upon maturity. The following table summarizes the significant features of the individual bonds, by issue:

<u>Series</u>	<u>Accreted Value</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Maturity Value</u>	<u>Maturity Dates</u>
2007	\$ 1,224,524	\$ 732,818	\$ 491,706	\$ 1,390,000	2014-2015
2010	452,848	65,111	387,737	455,000	2012
2010A	360,859	114,450	246,409	370,000	2013-2014
	<u>\$ 2,038,231</u>	<u>\$ 912,379</u>	<u>\$ 1,125,852</u>	<u>\$ 2,215,000</u>	

Qualified Zone Academy Bonds

The District is scheduled to make annual deposits into trust accounts for the Qualified Zone Academy Bonds (QZAB), Series 2000B, Series 2001B and Series 2005. These annual deposits plus the interest earned on the trust accounts will be used to pay off the debt upon maturities at 2012, 2024 and 2020 respectively. The Districts accounts for these trust accounts as *restricted cash and temporary investments* on both the Statement of Net Assets (Exhibit A-1) and in the Debt Service fund on the Governmental Funds Balance Sheet (Exhibit C-1).

Funds held in trust for Qualified Zone Academy Bonds (QZAB) are comprised of the following balances at August 31, 2011:

<u>Issue</u>	<u>Restricted Cash and Temporary Investments</u>	<u>Maturity Amount</u>	<u>Maturity Date</u>
Unlimited Tax School Building Bonds, Series 2000B	\$ 1,997,802	\$ 2,150,000	2012
Unlimited Tax School Building Bonds, Series 2001B	5,230,840	8,000,000	2024
Unlimited Tax School Building Bonds, Series 2005	1,061,045	3,000,000	2020
	<u>\$ 8,289,687</u>	<u>\$ 13,150,000</u>	

Prior Year Refunding of Long-Term Debt

The District refunded certain general obligation bonds in 2010. Proceeds of the refunding bonds were placed in an irrevocable trust to provide all future debt service payments on the old bonds. Accordingly, the trust asset accounts and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2011, the outstanding balance of defeased bonds was \$11,180,000.

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

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 41,855,009	\$ 15,611,461	\$	\$	\$ 57,466,470
Investment Income	43,634	394,907	21,810	1,235	461,586
Co-curricular student activities	176,196				176,196
Food Sales				662,457	662,457
Other	147,259			407	147,666
	<u>\$ 42,222,098</u>	<u>\$ 16,006,368</u>	<u>\$ 21,810</u>	<u>\$ 664,099</u>	<u>\$ 58,914,375</u>

Note 9 - Retirement Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2011, 2010, and 2009. The State contributed at a rate of 6.644% for fiscal year 2011 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are requirement to contribute 6.644% for fiscal year 2011, 6.4% for most of fiscal year 2010 (6.4% between September 2009 and December 2009) and 6.58% for fiscal year 2009.

Note 9 - Retirement Plan (continued)

Contributions

Contributions made by the State, District and staff members for the years ended August 31, 2011, 2010, and 2009, are as follows:

Fiscal Year	Contributions Required and Made (in \$millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2011	\$ 2.160	\$ 0.871	\$ 2.920	\$ 5.951	\$ 45.624
2010	2.042	0.813	2.784	5.639	43.500
2009	1.950	0.760	2.310	5.020	35.606

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

Note 10 - Retiree Health Plan

Plan Description

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

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

Note 10 - Retiree Health Plan (continued)

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%.

Contributions made by the State, District and staff members for the years ended August 31, 2011, 2010, and 2009, are as follows:

Fiscal Year	Contributions Required and Made (in \$millions)				Annual Covered Payroll
	State	District	Employees	Totals	
2011	\$ 0.428	\$ 0.279	\$ 0.297	\$ 1.004	\$ 45.624
2010	0.409	0.269	0.283	0.961	43.500
2009	0.296	0.211	0.231	0.738	35.606

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, 2011, 2010 and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$104,391, \$108,706 and \$79,151, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

Note 11 - Litigation

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

Note 12 - Contingent Liabilities

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

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Required Supplementary Information

SHELDON INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2011

Data Control Codes	Budgeted Amounts		
	Original	Final	
Revenues			
5700	Local and intermediate sources	\$ 43,467,850	\$ 41,719,897
5800	State program revenues	18,695,434	21,223,967
5900	Federal program revenues	250,000	831,256
5020	Total revenues	62,413,284	63,775,120
Expenditures			
Current:			
0011	Instruction	32,270,470	35,473,018
0012	Instructional resources and media services	763,585	924,485
0013	Curriculum and staff development	382,806	104,893
0021	Instructional leadership	2,225,388	2,189,388
0023	School leadership	3,878,491	3,879,091
0031	Guidance, counseling and evaluation services	1,774,194	1,912,464
0032	Social work services	79,000	79,000
0033	Health services	594,639	546,369
0034	Student transportation	3,369,352	3,376,427
0036	Extracurricular activities	1,498,391	1,888,835
0041	General administration	2,190,889	2,247,266
0051	Facilities maintenance and operations	8,176,151	8,849,371
0052	Security and monitoring services	678,151	695,151
0053	Data processing services	1,030,062	869,062
0061	Community services	6,250	6,250
Debt Service:			
0071	Principal on long-term debt	738,656	738,656
0072	Interest on long-term debt		
Capital outlay:			
0081	Capital outlay	951,500	1,597,380
Intergovernmental:			
0091	Contracted instructional services between schools	4,200,000	4,200,000
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	35,000	35,000
0099	Other intergovernmental charges	472,000	472,000
6030	Total Expenditures	65,314,975	70,084,106
1100	Excess (deficiency) of revenues over expenditures	(2,901,691)	(6,308,986)
Other Financing Sources (Uses)			
7911	Transfers In		1,637,627
7912	Sale of real or personal property		
7989	Other operating revenue		66,562
8911	Transfers Out	(250,000)	(1,313,955)
8949	Other uses		(148,856)
7080	Total other financing sources and uses	(250,000)	241,378
1200	Net change in fund balances	(3,151,691)	(6,067,608)
0100	Fund balances - beginning	20,291,823	20,291,823
3000	Fund balances - ending	\$ 17,140,132	\$ 14,224,215

Exhibit G-1

<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
\$ 42,222,098	\$ 502,201
21,837,743	613,776
2,085,761	1,254,505
<u>66,145,602</u>	<u>2,370,482</u>
35,067,005	406,013
867,987	56,498
73,296	31,597
2,078,391	110,997
3,782,655	96,436
1,827,970	84,494
28,300	50,700
506,693	39,676
3,252,861	123,566
1,680,053	208,782
2,011,955	235,311
7,931,489	917,882
621,787	73,364
641,887	227,175
2,073	4,177
480,000	258,656
258,656	(258,656)
1,217,880	379,500
4,323,874	(123,874)
1,100	33,900
482,617	(10,617)
<u>67,138,529</u>	<u>2,945,577</u>
<u>(992,927)</u>	<u>5,316,059</u>
	(1,637,627)
9,300	
17,715	(48,847)
(194,685)	1,119,270
(148,856)	
<u>(316,526)</u>	<u>(567,204)</u>
(1,309,453)	4,758,155
20,291,823	
<u>\$ 18,982,370</u>	<u>\$ 4,758,155</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, 2011.

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

The official school budget was prepared for adoption for budgeted governmental fund types by August 27, 2010. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

Expenditures In Excess Of Appropriations

All expenditures in the General Fund were within budgeted appropriations, except for payments for contracted instructional services between school in the amount of \$123,874 and other governmental charges of \$10,617.

Other Supplementary Information

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2011

	211	224	225
<u>Data Control Codes</u>	<u>ESEA Title I Part A</u>	<u>IDEA B Formula</u>	<u>IDEA B Preschool Grant</u>
Assets			
1110 Cash and temporary investments	\$ 2,876	\$	\$ 9,577
Receivables:			
1240 Receivables from other governments	61,399	57,711	3,223
1260 Due from other funds			
1310 Inventories, at cost			
1000 Total Assets	<u>\$ 64,275</u>	<u>\$ 57,711</u>	<u>\$ 12,800</u>
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110 Accounts payable	\$ 2,237	\$	\$
2160 Accrued wages payable		472	
2170 Due to other funds	62,038	57,239	12,800
2200 Accrued expenditures			
2300 Deferred revenues			
2000 Total Liabilities	<u>64,275</u>	<u>57,711</u>	<u>12,800</u>
Fund Balance:			
Nonspendable:			
3410 Inventories			
Restricted:			
3450 Grant Funds			
Assigned:			
3590 Other purposes			
3600 Unassigned			
3000 Total Fund Balances	<u></u>	<u></u>	<u></u>
4000 Total Liabilities and Fund Balance	<u>\$ 64,275</u>	<u>\$ 57,711</u>	<u>\$ 12,800</u>

240	244	255	263	265	266
Child Nutrition	Vocational Ed -Basic	Title II, Part A	Title III, Part A LEP	21st Century Grant	Title XIV, State Fiscal Stabilization Fund (ARRA)
\$ 808,966	\$ 23	\$ 9	\$ 88	\$ 16,209	\$ 12
136,688		56,440	50,398	40,310	155,562
80,629	27				
<u>\$ 1,026,283</u>	<u>\$ 50</u>	<u>\$ 56,449</u>	<u>\$ 50,486</u>	<u>\$ 56,519</u>	<u>\$ 155,574</u>
\$ 161,668	\$ 50	\$	\$ 4,000	\$ 1,813	\$
79,498			9,800	965	
199,737		56,449	36,686	53,741	155,574
69					
12,178					
<u>453,150</u>	<u>50</u>	<u>56,449</u>	<u>50,486</u>	<u>56,519</u>	<u>155,574</u>
80,629					
492,504					
<u>573,133</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
<u>\$ 1,026,283</u>	<u>\$ 50</u>	<u>\$ 56,449</u>	<u>\$ 50,486</u>	<u>\$ 56,519</u>	<u>\$ 155,574</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2011

<u>Data Control Codes</u>	279	283	284
	Title II, Part D - Enhancing Education (ARRA)	IDEA - Part B, Formula (ARRA)	IDEA - Part B, Preschool (ARRA)
Assets			
1110	Cash and temporary investments	\$ 13	\$
Receivables:			
1240	Receivables from other governments	57,662	
1260	Due from other funds		
1310	Inventories, at cost		
1000	Total Assets	\$ 57,675	\$
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$
2160	Accrued wages payable		
2170	Due to other funds	57,675	
2200	Accrued expenditures		
2300	Deferred revenues		
2000	Total Liabilities	\$ 57,675	\$
Fund Balance:			
Nonspendable:			
3410	Inventories		
Restricted:			
3450	Grant Funds		
Assigned:			
3590	Other purposes		
3600	Unassigned		
3000	Total Fund Balances	\$ 57,675	\$
4000	Total Liabilities and Fund Balance	\$ 57,675	\$

285	289	397	404	410	411
<u>ESEA, Title I, Part A (ARRA)</u>	<u>Federally Funded Special Revenue Fund</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>	<u>Technology</u>	<u>Technology Allotment</u>
\$	\$	\$	\$ 3	\$	\$
3,610	18,867		76,390		
<u>\$ 3,610</u>	<u>\$ 18,867</u>	<u>\$</u>	<u>\$ 76,393</u>	<u>\$</u>	<u>\$</u>
\$	\$	\$	\$	\$	\$
3,610	18,867		76,393		
<u>3,610</u>	<u>18,867</u>	<u></u>	<u>76,393</u>	<u></u>	<u></u>
<u>\$ 3,610</u>	<u>\$ 18,867</u>	<u>\$</u>	<u>\$ 76,393</u>	<u>\$</u>	<u>\$</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2011

Data Control Codes	418 Health Science	420 College Readiness for Middle School Students	425 Mentoring Program
Assets			
1110	\$ 22,441	\$	\$
Receivables:			
1240	9,987	36,949	28,162
1260			
1310			
1000	\$ 32,428	\$ 36,949	\$ 28,162
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	\$	\$	\$
2160	2,120	948	
2170	30,308	35,691	28,162
2200			
2300		310	
2000	32,428	36,949	28,162
Fund Balance:			
Nonspendable:			
3410			
Restricted:			
3450			
Assigned:			
3590			
3600			
3000			
4000	\$ 32,428	\$ 36,949	\$ 28,162

427	429	498	
<u>Texas Fitness Now</u>	<u>Texas Educators' Excellence</u>	<u>Locally Funded Special Revenue Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$	\$	\$ 860,217
19,812			813,170
			27
			80,629
<u>\$ 19,812</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,754,043</u>
\$	\$	\$	\$ 169,768
19,812			93,803
			904,782
			69
			12,488
<u>19,812</u>	<u></u>	<u></u>	<u>1,180,910</u>
			80,629
			492,504
			573,133
<u>\$ 19,812</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,754,043</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, 2011

	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	1,276,960	1,234,559	31,138
5020 Total revenues	<u>1,276,960</u>	<u>1,234,559</u>	<u>31,138</u>
Expenditures			
Current:			
0011 Instruction	1,264,438	992,576	31,138
0013 Curriculum and instructional staff development		26,260	
0021 Instructional leadership	938	33,899	
0023 School leadership			
0031 Guidance, counseling and evaluation services		154,916	
0033 Health services		26,908	
0035 Food service			
0051 Facilities maintenance and operations			
0061 Community services	11,584		
6030 Total Expenditures	<u>1,276,960</u>	<u>1,234,559</u>	<u>31,138</u>
1200 Net change in fund balances			
0100 Fund balance - September 1 (beginning)	<u> </u>	<u> </u>	<u> </u>
3000 Fund balance - August 31 (ending)	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

226	240	244	255	263	265	266
<u>IDEA B- Discretionary</u>	<u>Child Nutrition</u>	<u>Vocational Ed -Basic</u>	<u>Title II, Part A</u>	<u>Title III, Part A LEP</u>	<u>21st Century Grant</u>	<u>Title XIV, State Fiscal Stabilization Fund (ARRA)</u>
\$	\$ 664,099	\$	\$	\$	\$	\$
	106,071					
<u>27,751</u>	<u>3,625,283</u>	<u>55,618</u>	<u>194,472</u>	<u>205,453</u>	<u>116,412</u>	<u>1,822,924</u>
<u>27,751</u>	<u>4,395,453</u>	<u>55,618</u>	<u>194,472</u>	<u>205,453</u>	<u>116,412</u>	<u>1,822,924</u>
27,751		55,618	190,325	205,453	110,992	1,752,870
			4,147			70,054
	4,599,534				5,420	
<u>27,751</u>	<u>4,599,534</u>	<u>55,618</u>	<u>194,472</u>	<u>205,453</u>	<u>116,412</u>	<u>1,822,924</u>
	(204,081)					
	<u>777,214</u>					
<u>\$</u>	<u>\$ 573,133</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2011

<u>Data Control Codes</u>	279	283	284
	Title II, Part D - Enhancing Education (ARRA)	IDEA - Part B, Formula (ARRA)	IDEA - Part B, Preschool (ARRA)
	Revenues		
5700	\$	\$	\$
5800			
5900	11,388	397,115	5,941
5020	<u>11,388</u>	<u>397,115</u>	<u>5,941</u>
	Expenditures		
	Current:		
0011	11,388	390,115	5,941
0013			
0021		7,000	
0023			
0031			
0033			
0035			
0051			
0061			
6030	<u>11,388</u>	<u>397,115</u>	<u>5,941</u>
1200			
0100			
3000	<u>\$</u>	<u>\$</u>	<u>\$</u>

285	289	397	404	410	411
<u>ESEA, Title I, Part A (ARRA)</u>	<u>Federally Funded Special Revenue Fund</u>	<u>Advanced Placement Incentive</u>	<u>Student Succ. Init- Acc REA</u>	<u>Technology</u>	<u>Technology Allotment</u>
\$	\$	\$	\$	\$	\$
		8,100	94,058	41,751	179,458
38,495	36,057				
<u>38,495</u>	<u>36,057</u>	<u>8,100</u>	<u>94,058</u>	<u>41,751</u>	<u>179,458</u>
38,495	36,057	8,100	94,058	41,751	185,754
					2,000
<u>38,495</u>	<u>36,057</u>	<u>8,100</u>	<u>94,058</u>	<u>41,751</u>	<u>187,754</u>
					(8,296)
					<u>8,296</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2011

Data Control Codes	418	420	425
	Health Science	College Readiness for Middle School Students	Mentoring Program
Revenues			
5700	\$	\$	\$
5800	32,400	80,754	66,701
5900			
5020	Total revenues	Total revenues	Total revenues
	<u>32,400</u>	<u>80,754</u>	<u>66,701</u>
Expenditures			
Current:			
0011	31,284	80,754	66,701
0013	1,116		
0021			
0023			
0031			
0033			
0035			
0051			
0061			
6030	Total Expenditures	Total Expenditures	Total Expenditures
	<u>32,400</u>	<u>80,754</u>	<u>66,701</u>
1200			
0100			
3000	Fund balance - August 31 (ending)	Fund balance - August 31 (ending)	Fund balance - August 31 (ending)
	<u>\$</u>	<u>\$</u>	<u>\$</u>

427	429	498	
<u>Texas Fitness Now</u>	<u>Texas Educators' Excellence</u>	<u>Locally Funded Special Revenue Funds</u>	<u>Total-Other Governmental Funds</u>
\$	\$	\$	\$
19,812	65	2,800	664,099
			631,970
			9,079,566
<u>19,812</u>	<u>65</u>	<u>2,800</u>	<u>10,375,635</u>
19,812	65	2,800	5,636,136
			35,476
			47,984
			70,054
			154,916
			26,908
			4,599,534
			5,420
			11,584
<u>19,812</u>	<u>65</u>	<u>2,800</u>	<u>10,588,012</u>
			(212,377)
			785,510
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
			<u>573,133</u>

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TEA Required Information

SHELDON INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2011

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>3 Net Assessed/ Appraised Value For School Tax Purposes</u>	<u>10 Beginning Balance 8/31/2010</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2002 and prior	Various	Various	Various	\$ 347,828
2003	1.47200	0.16100	1,918,066,708	84,992
2004	1.47950	0.22350	1,749,209,818	127,642
2005	1.50000	0.24600	1,464,060,338	129,336
2006	1.50000	0.25000	1,927,391,387	156,870
2007	1.37000	0.26400	2,167,878,396	137,194
2008	1.04000	0.39000	3,262,365,274	712,210
2009	1.04000	0.39000	3,383,408,252	1,237,938
2010	1.04000	0.39000	3,449,039,580	2,247,285
2011	1.04000	0.39000	3,243,212,098	
1000 Totals				<u>\$ 5,181,295</u>
9000	Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code (Function 97)			<u>-0-</u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2011
\$	\$ 9,577	\$ 1,159	\$ (16,294)	\$ 320,798
	2,562	280	(112)	82,038
	3,538	534	303	123,873
	23,962	3,930	20,918	122,362
	42,766	7,128	18,083	125,059
	53,569	10,323	33,433	106,735
	105,998	39,749	29,948	596,411
	174,081	65,281	7,918	1,006,494
	1,087,145	407,679	582,564	1,335,025
<u>46,377,933</u>	<u>41,131,641</u>	<u>15,424,366</u>	<u>11,354,772</u>	<u>1,176,698</u>
<u>\$ 46,377,933</u>	<u>\$ 42,634,839</u>	<u>\$ 15,960,429</u>	<u>\$ 12,031,533</u>	<u>4,995,493</u>
				<u>2,448,532</u>
				<u>\$ 7,444,025</u>

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2012-2013
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2011

Exhibit J-2

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS		\$ 149,628	\$ 267,421	\$ 1,588,503			\$ 2,005,552
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)							-
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services	34,090		33,940				68,030
6212	Audit Services				58,425			58,425
6213	(Appraisal district costs only from function 99)		482,617					482,617
6214	Lobbying							
621X	Other Prof. Services	3,752		58,997				62,749
6220	Tuition and Transfer Payments							
6230	Education Service Centers				10,990			10,990
6240	Contr. Maint. and Repair					7,010		7,010
6250	Utilities					10,151		10,151
6260	Rentals				37,869			37,869
6290	Miscellaneous Contr.				51,982			51,982
6320	Textbooks and Reading							
6330	Testing Materials							
63XX	Other Supplies Materials	1,102	12,709	4,421	141,107			159,339
6410	Travel, Subsistence, Stipends	20,948	1,771	9,174	28,294			60,187
6420	Ins. and Bonding Costs		250		175			425
6430	Election Costs	10,538						10,538
6490	Miscellaneous Operating	28,090	5,746	6,421	40,159			80,416
6500	Debt Service							
6600	Capital Outlay						30,179	30,179
6000	TOTAL	\$ 98,520	\$ 652,721	\$ 380,374	\$ 1,957,504	\$ 17,161	\$ 30,179	\$ 3,136,459

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$77,726,541

Less: Deductions of Unallowable Costs

Fiscal Year	
Total Capital Outlay (6600)	10 \$1,976,492
Total Debt & Lease (6500)	11 738,656
Plant Maintenance (Function 51, 6100-6400)	12 7,799,542
Food (Function 35, 6341 and 6499)	13 1,937,334
Stipends (6413)	14
Column 4 (above) - Total Indirect Cost	1,957,504
Subtotal:	14,409,528
Net Allowed Direct Cost	63,317,013

Cumulative

Total Cost of Buildings before Depreciation (1520)	15 208,317,375
Historical Cost of Buildings over 50 years old	16
Amount of Federal Money in building Cost (Net of #16)	17
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18 9,917,352
Historical Cost of Furniture & Equipment over 16 years old	19 672,916
Amount of Federal Money in Furniture & Equipment (Net of #19)	20 88,904

(8) Note A - \$641,887 in Function 53 expenditures are included in this report on administrative costs.
 \$482,617 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

SHELDON INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND
August 31, 2011

Exhibit J-3

Data Control Code	Explanation	Amount
1.	Total General Fund Balance as of 8-31-11 (Exhibit C-1 object 3000 for the General Fund only)	\$ 18,982,370
2.	Total Nonspendable Fund Balance 8-31-11 (from Exhibit C-1 - total of object 341X - 344X for the General Fund only)	421,648
3.	Total Restricted Fund Balance 8-31-11 (from Exhibit C-1 - total of object 345X - 349X for the General Fund only)	14,437
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)	3,247,731
6.	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	11,985,325
7	Estimate of two month's average cash disbursements during the fiscal year	8,000,000
8.	Estimate of delayed payments from state sources (58xx)	
9.	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	
10.	Estimate of delayed payments from federal sources (59xx)	
11.	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
12.	General Fund Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10+11)	<u>23,669,141</u>
13.	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (1-12)	<u>\$ (4,686,771)</u>

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

SHELDON INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
For the Year Ended August 31, 2011

Exhibit J-4

Data Control Codes		Child Nutrition			
		Budget			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 629,330	\$ 688,915	\$ 664,099	\$ (24,816)
5800	State Program Revenues	155,150	108,081	106,071	(2,010)
5900	Federal Program Revenues	3,117,704	3,421,574	3,625,283	203,709
5020	Total Revenues	<u>3,902,184</u>	<u>4,218,570</u>	<u>4,395,453</u>	<u>176,883</u>
Expenditures					
Current:					
0035	Food Services	3,904,184	4,732,956	4,599,534	133,422
6030	Total Expenditures	<u>3,904,184</u>	<u>4,732,956</u>	<u>4,599,534</u>	<u>133,422</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>(2,000)</u>	<u>(514,386)</u>	<u>(204,081)</u>	<u>310,305</u>
Other Financing Sources (Uses)					
7910	Non Revenue		4,000		(4,000)
8990	Other Financing (Uses)	<u>(2,000)</u>	<u>(2,000)</u>		<u>2,000</u>
7080	Total other financing sources (uses)	<u>(2,000)</u>	<u>2,000</u>		<u>(2,000)</u>
1200	Increase (Decrease) in Fund Balance	(4,000)	(512,386)	(204,081)	308,305
0100	Fund Balance - beginning	<u>777,214</u>	<u>777,214</u>	<u>777,214</u>	
3000	Fund Balance - ending	<u>\$ 773,214</u>	<u>\$ 264,828</u>	<u>\$ 573,133</u>	<u>\$ 308,305</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2011

Data Control Codes	Debt Service Fund				
	Budget			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 15,792,834	\$ 15,441,406	\$ 16,006,368	\$ 564,962
5020	Total Revenues	<u>15,792,834</u>	<u>15,441,406</u>	<u>16,006,368</u>	<u>564,962</u>
Expenditures					
Current:					
Debt Service:					
0071	Principal and Interest on Long-term Debt	12,207,166	12,482,906	3,999,704	8,483,202
0073	Bond Issuance Costs and Fees			7,278,195	(7,278,195)
6030	Total Expenditures	<u>12,207,166</u>	<u>12,482,906</u>	<u>11,277,899</u>	<u>1,205,007</u>
1100	Excess (Deficiency) Revenues Over Expenditures	<u>3,585,668</u>	<u>2,958,500</u>	<u>4,728,469</u>	<u>1,769,969</u>
Other Financing Sources (Uses)					
7916	Premium		96,718	127,303	30,585
8949	Other Uses	<u>3,585,668</u>			
7080	Total other financing sources (uses)	<u>3,585,668</u>	<u>96,718</u>	<u>127,303</u>	<u>30,585</u>
1200	Increase (Decrease) in Fund Balance	<u>7,171,336</u>	<u>3,055,218</u>	<u>4,855,772</u>	<u>1,800,554</u>
0100	Fund Balance - beginning	<u>20,522,014</u>	<u>20,522,014</u>	<u>20,522,014</u>	
3000	Fund Balance - ending	<u>\$ 27,693,350</u>	<u>\$ 23,577,232</u>	<u>\$ 25,377,786</u>	<u>\$ 1,800,554</u>

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Federal Awards Section

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

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Sheldon Independent School District (the "District") as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Closing

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

A handwritten signature in black ink that reads "Nell Larson, AC". The signature is written in a cursive style with a large initial "N" and "L".

Texas City, Texas
January 17, 2012

**Independent Auditors' Report on Compliance with Requirements that
Could have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited Sheldon Independent School District's (the "District") compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Closing

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



Texas City, Texas
January 17, 2012

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2011

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs

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

US Department of Agriculture

Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Non-cash assistance Commodity	10.555

US Department of Education

Special Education Cluster:	
IDEA Part B - Special Education Formula	84.027A
IDEA Part B - High Cost	84.027A
IDEA Part B - Special Education Preschool	84.173A
IDEA Part B - Preschool LRE	84.173A
IDEA Part B - Formula - ARRA	84.391A
IDEA Part B - Preschool - ARRA	84.392A
Title XIV, State Fiscal Stabilization Fund (ARRA)	84.394A
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	Yes

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2011

II. Financial Statement Findings

Significant Deficiencies.

None reported.

III. Federal Awards Findings and Questioned Costs

None noted.

IV. Status Of Prior Year Findings

Finding #10-01 **Corrective Action Taken:** Resolved. Procedures were implemented for
Approved Purchase Orders the purchasing agent to follow up on any procurement procedure
deviations and trainings were held to emphasize proper procedures.

Finding #10-02 **Corrective Action Taken:** Resolved. An administrator is responsible for
Grant Tracking coordinating all grant programs related to curriculum and instruction of
the District and coordinates compliance requirements. The CFO is
charged with coordinating grants that fall outside curriculum and
instruction.

SHELDON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2011

Exhibit K-1

(2A)	(1)	(2)	(3)
Pass Through Entity Identifying Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Fund Number	Federal CFDA Number Federal Expenditures
U.S. Department of Education			
Passed Through Texas Education Agency:			
11610101101924000	<i>ESEA Title I, Improving Basic Programs *</i>	211	84.010A \$ 1,276,960
10551001101924	<i>ESEA Title I, Part A - ARRA*</i>	285	84.389A 38,495
116600011019246600	<i>IDEA Part B - Special Education Formula**</i>	224	84.027A 1,234,559
116610011019246610	<i>IDEA Part B - Preschool**</i>	225	84.173A 21,543
11660006101924	<i>IDEA Part B - High Cost**</i>	226	84.027A 27,751
10554001101924	<i>IDEA-B Formula - ARRA - LEA**</i>	283	84.391A 397,115
10555001101924	<i>IDEA-B Preschool-ARRA-LEA**</i>	284	84.392A 5,941
11420006101924	<i>Carl D. Perkins, Basic Grant</i>	244	84.048A 55,618
11694501101924	<i>ESEA Title II, Part A - Teacher/Principal Training</i>	255	84.367A 194,472
10553001101924	<i>Title II, Part D - Enhancing Education through Technology - ARRA***</i>	279	84.386A 11,388
11671001101924	<i>ESEA Title III, Part A - LEP</i>	263	84.365A 205,453
11557001101924	<i>Title XIV, State Fiscal Stabilization Fund - ARRA</i>	266	84.394A 1,822,924
69551102	<i>Summer School LEP</i>	289	84.369A 36,057
Total passed through Texas Education Agency			<u>5,328,276</u>
Passed Through Harris County Department of Education:			
S287B010187	<i>21 Century Community Learning Centers</i>	265	84.287C <u>116,412</u>
Passed Through Region IV Education Service Center:			
1166102271204	<i>IDEA - Part B, Preschool LRE**</i>	225	84.173A <u>9,595</u>
Total U.S. Department of Education			<u>5,454,283</u>
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture:			
<i>Child Nutrition Cluster:</i>			
<i>Non Cash Assistance (Commodities)</i>			
101924	<i>National School Lunch Program****</i>	240	10.555 238,133
<i>Cash Assistance:</i>			
6TX310385	<i>National School Lunch Program Equipment Assistance Grants</i>	240	10.579 40,469
Passed Through State Department of Education:			
<i>Cash Assistance:</i>			
71301101	<i>National School Lunch Program****</i>	240	10.555 2,269,566
71401101	<i>National School Breakfast Program****</i>	240	10.553 <u>1,077,115</u>
Total U.S. Department of Agriculture			<u>3,625,283</u>
Total Expenditures of Federal Awards			<u>\$ 9,079,566</u>

*Title I Cluster
**Special Education Cluster
***Title II, Part D Cluster
****Child Nutrition Cluster

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2010. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 2 - Summary of Significant Accounting

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

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

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

Note 3 - Reconciliation to Basic Financial Statements

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

Federal Program Revenues (Per Exhibit C-3)	\$ 11,165,327
SHARS	(1,504,505)
Federal Subsidy	(581,256)
Expenditures of Federal Awards per SEFA	<u>\$ 9,079,566</u>

SHELDON INDEPENDENT SCHOOL DISTRICT

Exhibit L-1

STATEMENT OF NET ASSETS

August 31, 2011

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	<u>\$ 1,125,852</u>

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