

STERLING CITY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

Reed, McKee & Co., P.C.
Certified Public Accountants
San Angelo, Texas

STERLING CITY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

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CERTIFICATE OF BOARD

Sterling City Independent School District
Name of School District


Sterling
County

216-901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) 5 approved 0 disapproved for the year ended August 31, 2017 at a meeting of the Board of Trustees of such school district on the 18th day of January, 2018.



Signature of Board Secretary



Signature of Board President

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

FINANCIAL SECTION

Reed, McKee & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3140 EXECUTIVE DRIVE
SAN ANGELO, TEXAS 76904
(325) 942-8984

Independent Auditor's Report

Board of Trustees
Sterling City Independent School District
P.O. Box 786
Sterling City, Texas 76951

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business activities, each major fund, and the aggregate remaining fund information of Sterling City Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Sterling City Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Sterling City Independent School District as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements as well as the Schedule of District's Proportionate Share of the Net Pension Liability and Schedule of District Contributions on pages 46 and 47 and the related notes to required supplementary information on page 48. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sterling City Independent School District's basic financial statements. The required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The required TEA schedules are the responsibility of management and are derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the required TEA schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 on our consideration of the Sterling City Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sterling City Independent School District's internal control over financial reporting and compliance.


Reed, McKee & Co., P.C.
December 14, 2017

**STERLING CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

This section of Sterling City Independent School District's annual financial report presents our discussion and analysis of the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the Independent Auditor's Report and the District's Financial Statements.

FINANCIAL HIGHLIGHTS

The District's governmental net position as presented on Exhibit A-1, increased by \$555,064 as a result of this year's operations. Net position consists of unrestricted amounts of \$2,746,041 which may be used to meet the District's ongoing obligations, restricted for debt service of \$5,307,028 which represents assets set aside for debt repayment, restricted for other purposes of \$366, and invested in capital assets, net of related debt of \$13,451,608 which represents the net depreciable assets less related debt. Total assets of the governmental activities decreased by \$544,112 with a corresponding decrease in total liabilities of \$1,169,276 as can be seen on Table I following. Cash and cash equivalents decreased by \$2,116,849 as the district continued to spend on the bond projects. Bonds payable decreased by \$920,580 as the district continued to pay down on the principal. The deferred inflows of resources and deferred outflows are presented to adjust the pension expense to the amount recognized under the pension plan standards. A detail of what makes up these accounts is detailed in the footnotes to these financial statements.

As shown in Table II on page 8 the District has combined governmental fund revenues of \$7,639,065 consisting of charges for services, operating grants and general revenues. This represents a decrease of \$2,138,463 as compared to the prior year. The decrease in taxes is partially due to the tax increment amounts netted in taxes which were actually paid by the district in 2016. Assessed values also decreased by approximately \$188,000,000. With the continuing decrease in assessed values the amount paid back to the state as a Chapter 41 school district also decreased by \$620,954. The District had \$7,084,001 of total governmental fund expenses that were offset by \$80,804 of charges for services and \$593,639 of operating grants and contributions. This left net expenses of \$6,409,558 which were funded by general revenues of \$6,964,622. Expenses decreased by \$1,503,800 as compared to the prior year. Significant changes include the tax increment amounts expensed in 2016 and shown as netted in revenues for 2017 as well as the decrease in Chapter 41 amounts paid back to state.

Utilizing the information on Exhibits C-1 and C-3, the fund financial statements show a decrease in total governmental fund assets of \$1,503,420 and an increase in liabilities of \$307,870. The increase in liabilities is due to the \$548,820 due to the debt service funds representing the effect of the 313 agreement calculations for taxes. Unassigned fund balance totaled \$1,998,182 which represents approximately six months of operations excluding the cost of recapture to equalize wealth as payable to the state. Looking at Exhibit C-3, revenues decreased \$2,032,539 due to the decrease in assessed values as noted above. Local revenues decreased from 76% of total funding in the general fund to 65%. With the loss in tax revenue there was an increase in state revenues. The increase was smaller than the decrease in tax revenue partially due to the decrease in student ADA from 311 in 2016 to 285 ADA in 2017. Expenses in the general fund were down also due to the reasons noted above in the discussion of Exhibit B-1. The Capital Projects fund continued to spend the amounts planned for in the bond issue. The total spent in 2017 was \$2,627,447 with the continued building on renovation of several areas on the campus. The Debt Service Fund showed an increase of \$518,615 mainly due to the transfer of funds from the general fund to the debt service fund of \$548,820. This represented the tax credits allowed to the 313 agreements for the debt service portion of the agreement.

**STERLING CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
UNAUDITED**

Finally, it should be noted as shown on Exhibit C-5 that the District's original budget for the current year was anticipating a \$358,966 decrease in the general fund balance. The final budget was amended in certain functional areas, but continued to show a decrease of \$358,966. As can be seen with a comparison to actual, the net change in the general fund balance was an increase of \$298,397. The main reason for the large variance in final budget versus actual amounts was the decrease in expenses compared to the budget. Actual expenses were \$1,033,326 less than budgeted. Looking at the expenses on Exhibit C-5 the largest decrease was in the payments of the tax increments as noted above. Revenues were slightly less than anticipated with a variance of \$88,646 less than anticipated.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial report of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statement of fiduciary net position provides financial information about activities for which the District acts solely as a trustee. These funds represent the student activity funds.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The required supplementary information includes information required by the governmental accounting standards as well as information required by the Texas Education Agency.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students who reside outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

**STERLING CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
UNAUDITED**

These two statements report the District's net position and changes in them. The District's net position (the difference between assets plus deferred outflows less liabilities and deferred inflows) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we present all the activities of the District as one governmental activity and one business type activity which are defined below.

Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Business-Type activities—This includes only the information related to the Wind Farm Fund.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants passed through the Texas Education Agency. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The fund financial statements reflect the general fund and separate columns for all major funds and all other funds combined in a column referred to as all other funds.

Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds – This fund again, represents the Wind Farm Fund activity only.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in the separate Statement of Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**STERLING CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District's governmental activities increased from \$20,949,613 to \$21,504,677. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$2,746,041 at August 31, 2017. The large increase in Capital assets, net is the funds spent on the construction projects. See footnote IIID for more information.

Table I – Net Position

	Governmental Activities			Business-Type Activities		
	2017	2016	Change	2017	2016	Change
Current and other assets	\$ 10,632,762	\$ 12,685,002	\$ (2,052,540)	\$ 366	\$ 390	\$ (24)
Capital assets, net	30,689,449	29,181,321	1,508,128	0	0	0
Total assets	<u>41,322,211</u>	<u>41,866,323</u>	<u>(544,112)</u>	<u>366</u>	<u>390</u>	<u>(24)</u>
Deferred outflows	<u>302,577</u>	<u>377,657</u>	<u>(75,080)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Long-term liabilities	18,673,280	20,386,702	(1,713,422)	0	0	0
Other liabilities	<u>1,403,560</u>	<u>859,414</u>	<u>544,146</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities	<u>20,076,840</u>	<u>21,246,116</u>	<u>(1,169,276)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Deferred inflows	<u>43,271</u>	<u>48,251</u>	<u>(4,980)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net position:						
Invested in cap assets, net of related debt	13,451,608	13,651,167	(199,559)	0	0	0
Restricted for debt svc	5,307,028	4,787,651	519,377	0	0	0
Restricted for other	0	0	0	366	390	(24)
Unrestricted	<u>2,746,041</u>	<u>2,510,795</u>	<u>235,246</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total net position	<u>\$ 21,504,677</u>	<u>\$ 20,949,613</u>	<u>\$ 555,064</u>	<u>\$ 366</u>	<u>\$ 390</u>	<u>\$ (24)</u>

Long term liabilities decreased as a result of the repayment of principal in the current year. Details about the debt are located in the footnotes to these financial statements.

Business-Type activities represent funds set a side for wind farm contracts.

The increase in the amount of restricted net position for debt service is due to tax revenues in excess of bond payments as well as the build-up of funds for the repayment of the 2011A Bonds. There is a \$454,545 annual payment that is set aside in an escrow account for the payment of the 2011A bond. These financial statements have considered these funds to remain as part of the assets of the District until such time as they are used to repay the above mentioned bonds. The only other remaining bond issue outstanding is the recently issued 2015 bonds, none of which are callable until February 20, 2020.

**STERLING CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
UNAUDITED**

Table II – Changes in Net Position

	Governmental Activities			Business-Type Activities		
	2017	2016	Change	2017	2016	Change
Revenues						
Program revenues						
Charges for services	\$ 80,804	\$ 104,805	\$ (24,001)	\$ 0	\$ 0	\$ (0)
Oper grants & contrib	593,639	620,683	(27,044)	0	0	0
General revenues						
Property taxes-general	3,625,879	4,091,214	(825,335)	0	0	0
Property taxes-debt svc	1,203,310	2,188,419	(985,109)	0	0	0
State aid-formula grants	2,039,406	1,756,201	283,205	0	0	0
Grants & cont not rest	7,950	11,130	(3,180)	0	0	0
Investment earnings	24,704	12,463	12,241	0	27	(27)
Miscellaneous	63,373	992,613	(929,240)	0	0	0
Total revenues	<u>7,639,065</u>	<u>9,777,528</u>	<u>(2,138,463)</u>	<u>0</u>	<u>27</u>	<u>(27)</u>
Expenses						
Instruction	1,874,299	2,017,394	(143,095)	0	0	0
Inst res & media svcs	56,730	72,995	(16,265)	0	0	0
Curriculum & staff dev	19,986	13,641	6,345	0	0	0
Instructional leadership	6,081	5,994	87	0	0	0
School leadership	250,900	250,420	480	0	0	0
Guidance, counseling, & evaluation services	54,312	38,407	15,905	0	0	0
Health services	8,928	6,237	2,691	0	0	0
Student (pupil) transport	141,792	167,507	(25,715)	0	0	0
Food services	144,187	175,968	(31,781)	0	0	0
Extracurricular activities	347,198	358,473	(11,275)	0	0	0
General administration	376,725	372,483	4,242	24	35,500	(35,476)
Facil maint & operations	1,434,461	1,196,338	238,123	0	0	0
Sec & monitoring svcs	10,642	6,736	3,906	0	0	0
Data processing services	108,160	108,856	(696)	0	0	0
Community services	90,151	52,858	37,293	0	0	0
Debt service-interest	532,870	504,816	28,054	0	0	0
Debt service-bond costs	1,300	136,297	(134,997)	0	0	0
Capital outlay	33,271	0	33,271	0	0	0
Contracted inst svcs between schools	1,304,603	1,925,557	(620,954)	0	0	0
Pmts related to shared service arrangements	149,964	162,848	(12,884)	0	0	0
Pmts to tax increm fund	0	871,111	(871,111)	0	0	0
Other intergovt chgs	137,441	142,865	(5,424)	0	0	0
Total expenses	<u>7,084,001</u>	<u>8,587,801</u>	<u>(1,503,800)</u>	<u>24</u>	<u>35,500</u>	<u>(35,476)</u>
Change in net assets	555,064	1,189,727	(634,663)	(24)	(35,473)	35,449
Net position-beginning	<u>20,949,613</u>	<u>19,759,886</u>	<u>1,189,727</u>	<u>390</u>	<u>35,863</u>	<u>(35,473)</u>
Net position-ending	<u>\$ 21,504,677</u>	<u>\$ 20,949,613</u>	<u>\$ 555,064</u>	<u>\$ 366</u>	<u>\$ 390</u>	<u>\$ (24)</u>

**STERLING CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
UNAUDITED**

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$9,860,100 compared to a balance of \$11,670,535 in the prior year. This represents a \$1,810,435 decrease in the fund balance again due to the construction expenses of \$2,627,447. As can be seen in Exhibit C-3 the general fund had a net increase in fund balance of \$298,397. A portion of this increase was due to the sale of a teachers house of \$129,200. The Debt service fund was discussed earlier.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$37,448,313 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Accumulated depreciation related to these assets was \$6,758,864. Current year additions included the ongoing construction project mainly and can be seen in the footnote III.D to these financial statements.

Debt

There were not new bond issues in the current year with the principal and interest requirements paid. For detail information on these amounts as well as other information refer to Note III.E in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted a 2018 budget for the General Fund in the amount of \$5,064,256 for the general fund expenditures. The 2018 budget is based on a current tax rate of \$1.04 for operations and maintenance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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. If there are questions concerning any of the information provided in this report or a request for additional financial information, please contact the District's administration at Sterling City Independent School District, P.O. Box 786, Sterling City, TX 76951 or (325) 378-4781.

BASIC FINANCIAL STATEMENTS

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	1	2 Primary Government	3
	Governmental Activities	Business Type Activities	Total
ASSETS			
1110 Cash and Cash Equivalents	\$ 9,964,796	\$ 366	\$ 9,965,162
1220 Property Taxes Receivable (Delinquent)	190,185	-	190,185
1230 Allowance for Uncollectible Taxes	(35,987)	-	(35,987)
1240 Due from Other Governments	487,685	-	487,685
1290 Other Receivables, net	26,083	-	26,083
Capital Assets:			
1510 Land	526,747	-	526,747
1520 Buildings, Net	24,896,225	-	24,896,225
1530 Furniture and Equipment, Net	541,160	-	541,160
1580 Construction in Progress	4,725,317	-	4,725,317
1000 Total Assets	<u>41,322,211</u>	<u>366</u>	<u>41,322,577</u>
DEFERRED OUTFLOWS OF RESOURCES			
1705 Deferred Outflow Related to TRS	<u>302,577</u>	<u>-</u>	<u>302,577</u>
1700 Total Deferred Outflows of Resources	<u>302,577</u>	<u>-</u>	<u>302,577</u>
LIABILITIES			
2110 Accounts Payable	395,546	-	395,546
2160 Accrued Wages Payable	127,939	-	127,939
2180 Due to Other Governments	92,176	-	92,176
2200 Accrued Expenses	2,803	-	2,803
Noncurrent Liabilities			
2501 Due Within One Year	785,096	-	785,096
2502 Due in More Than One Year	18,032,449	-	18,032,449
2540 Net Pension Liability (District's Share)	640,831	-	640,831
2000 Total Liabilities	<u>20,076,840</u>	<u>-</u>	<u>20,076,840</u>
DEFERRED INFLOWS OF RESOURCES			
2605 Deferred Inflow Related to TRS	<u>43,271</u>	<u>-</u>	<u>43,271</u>
2600 Total Deferred Inflows of Resources	<u>43,271</u>	<u>-</u>	<u>43,271</u>
NET POSITION			
3200 Net Investment in Capital Assets	13,451,608	-	13,451,608
Restricted:			
3850 Restricted for Debt Service	5,307,028	-	5,307,028
3890 Restricted for Other Purposes	-	366	366
3900 Unrestricted	<u>2,746,041</u>	<u>-</u>	<u>2,746,041</u>
3000 Total Net Position	<u>\$ 21,504,677</u>	<u>\$ 366</u>	<u>\$ 21,505,043</u>

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 1,874,299	\$ -	\$ 224,115
12 Instructional Resources and Media Services	56,730	-	3,727
13 Curriculum and Staff Development	19,986	-	7,253
21 Instructional Leadership	6,081	-	860
23 School Leadership	250,900	-	20,973
31 Guidance, Counseling and Evaluation Services	54,312	-	3,630
33 Health Services	8,928	-	127
34 Student (Pupil) Transportation	141,792	-	2,370
35 Food Services	144,187	32,784	74,349
36 Extracurricular Activities	347,198	12,137	7,164
41 General Administration	376,725	-	22,546
51 Facilities Maintenance and Operations	1,434,461	24,842	16,873
52 Security and Monitoring Services	10,642	-	-
53 Data Processing Services	108,160	-	5,112
61 Community Services	90,151	11,041	540
72 Debt Service - Interest on Long Term Debt	532,870	-	204,000
73 Debt Service - Bond Issuance Cost and Fees	1,300	-	-
81 Capital Outlay	33,271	-	-
91 Contracted Instructional Services Between Schools	1,304,603	-	-
93 Payments related to Shared Services Arrangements	149,964	-	-
99 Other Intergovernmental Charges	137,441	-	-
[TG] Total Governmental Activities:	7,084,001	80,804	593,639
BUSINESS-TYPE ACTIVITIES:			
01 Enterprise Funds - Locally Defined	24	-	-
[TB] Total Business-Type Activities:	24	-	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 7,084,025	\$ 80,804	\$ 593,639

Data Control Codes	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
GC	Grants and Contributions not Restricted
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
TR	Total General Revenues
CN	Change in Net Position
NB	Net Position - Beginning
NE	Net Position--Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,650,184)	\$ -	\$ (1,650,184)
(53,003)	-	(53,003)
(12,733)	-	(12,733)
(5,221)	-	(5,221)
(229,927)	-	(229,927)
(50,682)	-	(50,682)
(8,801)	-	(8,801)
(139,422)	-	(139,422)
(37,054)	-	(37,054)
(327,897)	-	(327,897)
(354,179)	-	(354,179)
(1,392,746)	-	(1,392,746)
(10,642)	-	(10,642)
(103,048)	-	(103,048)
(78,570)	-	(78,570)
(328,870)	-	(328,870)
(1,300)	-	(1,300)
(33,271)	-	(33,271)
(1,304,603)	-	(1,304,603)
(149,964)	-	(149,964)
(137,441)	-	(137,441)
<u>(6,409,558)</u>	<u>-</u>	<u>(6,409,558)</u>
-	(24)	(24)
<u>-</u>	<u>(24)</u>	<u>(24)</u>
<u>(6,409,558)</u>	<u>(24)</u>	<u>(6,409,582)</u>
3,625,879	-	3,625,879
1,203,310	-	1,203,310
2,039,406	-	2,039,406
7,950	-	7,950
24,704	-	24,704
63,373	-	63,373
<u>6,964,622</u>	<u>-</u>	<u>6,964,622</u>
555,064	(24)	555,040
20,949,613	390	20,950,003
<u>\$ 21,504,677</u>	<u>\$ 366</u>	<u>\$ 21,505,043</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 3,322,405	\$ 4,752,055	\$ 1,896,241
1220 Property Taxes - Delinquent	160,464	29,721	-
1230 Allowance for Uncollectible Taxes (Credit)	(31,080)	(4,907)	-
1240 Receivables from Other Governments	467,433	1,435	-
1260 Due from Other Funds	-	548,820	-
1290 Other Receivables	26,083	-	-
1000 Total Assets	<u>\$ 3,945,305</u>	<u>\$ 5,327,124</u>	<u>\$ 1,896,241</u>
LIABILITIES			
2110 Accounts Payable	\$ 53,090	\$ -	\$ 336,633
2160 Accrued Wages Payable	121,122	-	-
2170 Due to Other Funds	548,820	-	-
2180 Due to Other Governments	92,176	-	-
2200 Accrued Expenditures	2,531	-	-
2000 Total Liabilities	<u>817,739</u>	<u>-</u>	<u>336,633</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	129,384	24,814	-
2600 Total Deferred Inflows of Resources	<u>129,384</u>	<u>24,814</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3470 Capital Acquisition and Contractual Obligation	-	-	1,559,608
3480 Retirement of Long-Term Debt	-	5,302,310	-
Committed Fund Balance:			
3510 Construction	1,000,000	-	-
3600 Unassigned Fund Balance	1,998,182	-	-
3000 Total Fund Balances	<u>2,998,182</u>	<u>5,302,310</u>	<u>1,559,608</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,945,305</u>	<u>\$ 5,327,124</u>	<u>\$ 1,896,241</u>

The notes to the financial statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ (5,905)	\$ 9,964,796
-	190,185
-	(35,987)
18,817	487,685
-	548,820
-	26,083
<u>\$ 12,912</u>	<u>\$ 11,181,582</u>
\$ 5,823	\$ 395,546
6,817	127,939
-	548,820
-	92,176
272	2,803
<u>12,912</u>	<u>1,167,284</u>
-	154,198
-	154,198
-	1,559,608
-	5,302,310
-	1,000,000
-	1,998,182
<u>-</u>	<u>9,860,100</u>
<u>\$ 12,912</u>	<u>\$ 11,181,582</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2017

Total Fund Balances - Governmental Funds	\$ 9,860,100
1 Net capital assets used in governmental activities are not reported in the fund financial statements.	30,689,449
2 The district's proportionate share of the TRS collective deferred outflows (\$253,795) as well as the district's contributions made to TRS subsequent to the 8/31/16 net pension liability date (\$48,782) are recognized as a deferred outflow of resources in the Statement of Net Position.	302,577
3 Bonds (including premiums and accrued interest) are not reported in the fund financial statements.	(18,817,545)
4 The district's proportionate share of the TRS net pension liability is reported in the Statement of Net Position.	(640,831)
5 The district's proportionate share of the TRS collective deferred inflows is recognized in the Statement of Net Position.	(43,271)
6 Net delinquent property taxes receivable are deferred in the fund financial statements.	154,198
19 Net Position of Governmental Activities	<u>\$ 21,504,677</u>

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 3,703,971	\$ 1,220,545	\$ -
5800 State Program Revenues	2,203,331	2,625	-
5900 Federal Program Revenues	7,950	201,375	-
5020 Total Revenues	<u>5,915,252</u>	<u>1,424,545</u>	<u>-</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,694,343	-	-
0012 Instructional Resources and Media Services	55,259	-	-
0013 Curriculum and Instructional Staff Development	12,834	-	-
0021 Instructional Leadership	5,221	-	-
0023 School Leadership	240,490	-	-
0031 Guidance, Counseling and Evaluation Services	52,386	-	-
0033 Health Services	8,853	-	-
0034 Student (Pupil) Transportation	105,055	-	-
0035 Food Services	5,186	-	-
0036 Extracurricular Activities	295,365	-	-
0041 General Administration	365,022	-	-
0051 Facilities Maintenance and Operations	574,750	-	-
0052 Security and Monitoring Services	10,642	-	-
0053 Data Processing Services	105,218	-	-
0061 Community Services	35,346	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	745,000	-
0072 Interest on Long Term Debt	-	708,450	-
0073 Bond Issuance Cost and Fees	-	1,300	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	2,627,447
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	1,304,603	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	149,964	-	-
0099 Other Intergovernmental Charges	137,441	-	-
6030 Total Expenditures	<u>5,157,978</u>	<u>1,454,750</u>	<u>2,627,447</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>757,274</u>	<u>(30,205)</u>	<u>(2,627,447)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	129,200	-	-
7915 Transfers In	-	548,820	-
8911 Transfers Out (Use)	(583,077)	-	-
8949 Other (Uses)	(5,000)	-	-
7080 Total Other Financing Sources (Uses)	<u>(458,877)</u>	<u>548,820</u>	<u>-</u>
1200 Net Change in Fund Balances	298,397	518,615	(2,627,447)
0100 Fund Balance - September 1 (Beginning)	<u>2,699,785</u>	<u>4,783,695</u>	<u>4,187,055</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,998,182</u>	<u>\$ 5,302,310</u>	<u>\$ 1,559,608</u>

The notes to the financial statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 32,785	\$ 4,957,301
39,335	2,245,291
144,510	353,835
<u>216,630</u>	<u>7,556,427</u>
108,137	1,802,480
-	55,259
7,009	19,843
860	6,081
-	240,490
-	52,386
-	8,853
-	105,055
134,881	140,067
-	295,365
-	365,022
-	574,750
-	10,642
-	105,218
-	35,346
-	745,000
-	708,450
-	1,300
-	2,627,447
-	1,304,603
-	149,964
-	137,441
<u>250,887</u>	<u>9,491,062</u>
<u>(34,257)</u>	<u>(1,934,635)</u>
-	129,200
34,257	583,077
-	(583,077)
-	(5,000)
<u>34,257</u>	<u>124,200</u>
-	(1,810,435)
-	11,670,535
<u>\$ -</u>	<u>\$ 9,860,100</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	(1,810,435)
Capital outlay expenditures are capitalized in the government-wide financial statements.		2,594,176
Depreciation of capital assets is recognized in the government-wide financial statements.		(998,472)
The undepreciated basis of capital assets sold are netted against the sales proceeds in the Statement of Activities.		(87,576)
Bond payments are reported as a decrease in liabilities in the government-wide financial statements.		745,000
Amortization of bond premiums is recognized in the government-wide financial statements.		174,760
Accrued interest payable on bonds is reported in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.		820
The State of Texas' proportionate share of the district's TRS pension expense as determined under the provisions of GASB 68 is recorded as a revenue and expense in the Statement of Activities. This amount exceeded the statutory amount contributed and reported as on-behalf revenue and expenditure in the fund financial statements.		41,869
TRS pension expense as reported in the Statement of Activities and determined under the provisions of GASB 68 exceeded the amount reported in the fund financial statements.		(104,223)
Net delinquent property taxes receivable are not deferred in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.		(855)
Change in Net Position of Governmental Activities	\$	555,064

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,837,408	\$ 3,847,748	\$ 3,703,971	\$ (143,777)
5800	State Program Revenues	2,151,380	2,151,380	2,203,331	51,951
5900	Federal Program Revenues	4,770	4,770	7,950	3,180
5020	Total Revenues	5,993,558	6,003,898	5,915,252	(88,646)
EXPENDITURES:					
Current:					
0011	Instruction	1,728,565	1,728,565	1,694,343	34,222
0012	Instructional Resources and Media Services	75,047	59,547	55,259	4,288
0013	Curriculum and Instructional Staff Development	16,171	19,171	12,834	6,337
0021	Instructional Leadership	4,594	4,844	5,221	(377)
0023	School Leadership	245,521	245,521	240,490	5,031
0031	Guidance, Counseling and Evaluation Services	55,028	55,028	52,386	2,642
0033	Health Services	6,950	10,550	8,853	1,697
0034	Student (Pupil) Transportation	119,788	119,788	105,055	14,733
0035	Food Services	6,300	6,300	5,186	1,114
0036	Extracurricular Activities	308,545	304,690	295,365	9,325
0041	General Administration	383,260	378,660	365,022	13,638
0051	Facilities Maintenance and Operations	551,362	576,362	574,750	1,612
0052	Security and Monitoring Services	8,400	12,000	10,642	1,358
0053	Data Processing Services	94,679	108,179	105,218	2,961
0061	Community Services	39,545	39,545	35,346	4,199
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	1,460,000	1,435,000	1,304,603	130,397
0093	Payments to Fiscal Agent/Member Districts of SSA	149,964	149,969	149,964	5
0097	Payments to Tax Increment Fund	850,000	850,000	-	850,000
0099	Other Intergovernmental Charges	165,891	176,231	137,441	38,790
6030	Total Expenditures	6,269,610	6,279,950	5,157,978	1,121,972
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(276,052)	(276,052)	757,274	1,033,326
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	129,200	129,200
8911	Transfers Out (Use)	(82,914)	(82,914)	(583,077)	(500,163)
8949	Other (Uses)	-	-	(5,000)	(5,000)
7080	Total Other Financing Sources (Uses)	(82,914)	(82,914)	(458,877)	(375,963)
1200	Net Change in Fund Balances	(358,966)	(358,966)	298,397	657,363
0100	Fund Balance - September 1 (Beginning)	2,699,785	2,699,785	2,699,785	-
3000	Fund Balance - August 31 (Ending)	\$ 2,340,819	\$ 2,340,819	\$ 2,998,182	\$ 657,363

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 AUGUST 31, 2017

	Business-Type Activities
	Total Enterprise Funds
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 366
Total Assets	366
NET POSITION	
Restricted for Other Purposes	366
Total Net Position	\$ 366

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Business-Type Activities
	Total Enterprise Funds
<hr/>	
OPERATING EXPENSES:	
Other Operating Costs	\$ 24
Total Operating Expenses	24
Operating Income (Loss)	(24)
Total Net Position - September 1 (Beginning)	390
Total Net Position - August 31 (Ending)	\$ 366

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Payments for Other Operating Expenses	\$ 24
Net Decrease in Cash and Cash Equivalents	(24)
Cash and Cash Equivalents at Beginning of Year	390
Cash and Cash Equivalents at End of Year	\$ 366
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	\$ (24)

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 75,198
Total Assets	<u>\$ 75,198</u>
LIABILITIES	
Due to Student Groups	\$ 75,198
Total Liabilities	<u>\$ 75,198</u>

The notes to the financial statements are an integral part of this statement.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

I. Summary of Significant Accounting Policies

Sterling City Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

A. Reporting Entity

The Board of Trustees, (the "Board"), a seven-member group is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non fiduciary activities of the primary government with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include charges for athletic events, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due from on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide statement of activities.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

B. Government-Wide and Fund Financial Statements - Continued

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

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

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund statement of net position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund Accounting

The District reports the following major governmental funds:

General Fund – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Capital Projects Fund –The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital assets acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance is accounted for in special revenue funds and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

Enterprise Funds – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods and services of those activities are accounted for in an enterprise fund. The District's non-major enterprise fund is the Wind Farm Fund.

Fiduciary Funds:

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds. These funds represent the student activity funds.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

E. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of nine months or less from the date of acquisition.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff qualify and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Sterling City Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Temporary investments, including certificates of deposit, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations. The reported values of the pools are the same as the fair values of the pool shares.

F. Other Accounting Policies

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with Resource Guide. Although food commodities are received at no cost, their fair market values supplied by the Texas Department of Human Services are recorded as food supplies and revenue when received.
3. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund activities statement of net position. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the 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 expenditures.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

F. Other Accounting Policies - Continued

4. The District has a policy allowing employees local personal leave days. Employees of the District are allowed three local personal leave days in addition to the allowable state leave days per year. Any unused local leave days will be allowed to accumulate and vest up to no more than 20 days. The District will reimburse employees leaving the District for any unused local leave days at a rate of \$50 per day. The liability amount has not been determined at August 31, 2017, but is deemed to be immaterial.
5. Land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. These capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market at the date of donations.

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, 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 & Improvements	20-40
Vehicles	5-10
Furniture and Equipment	5-20

6. Interfund activity results from loans or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted on the government-wide statement of activities. Similarly, interfund receivables and payables are netted on the government-wide statement of net position.
7. The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.
8. In the fund financial statements, governmental funds report fund balances in classifications based primarily on the extent to which the district is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. The *nonspendable* classification represents assets that will be consumed or must be maintained intact and therefore will never convert to cash, such as inventories of supplies, prepaid expense, and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the *restricted* classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classification – *committed*, *assigned*, and *unassigned*.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

F. Other Accounting Policies - Continued

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of *nonspendable* and *restricted* fund balances since that practice would commit funds that the district does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the Board of Trustees.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances. The Board of Trustees may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board of Trustees.

When the district makes expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the district incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditure should be charged to committed if directly associated with the specific commitment, to assigned if directly associated with the specific assignment, and to unassigned if not directly associated with either the specific commitment or specific assignment.

By resolution to the minutes, the Board authorized up to \$1,000,000 in committed fund balance for construction, teacherages, and transportation and also authorized the District to strive to maintain an annual fund balance in the general fund in which the total fund balance is three months operating expenses.

9. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
10. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position.
11. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow or resources until then. See the pension footnote for a further description of this amount.
12. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. One type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category is uncollected property taxes which are reported on the balance sheet for governmental funds. The other items reported in this category are discussed in the pension footnote.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

F. Other Accounting Policies – Continued

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

II. Stewardship, Compliance, and Accountability

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are presented in Exhibits G-2 and G-3. The remaining Special Revenue Funds adopt a project-length budget which does not correspond to the District's fiscal year.

The following procedures are followed in establishing the budgetary data reflected in the fund financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As, required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
4. The District does utilize encumbrance accounting. There were no outstanding encumbrances that were re-appropriated for the next year.
5. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

III. Detailed Notes on all Funds and Account Groups

A. Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District’s agent bank in an amount sufficient to protect District funds on a day to day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Cash Deposits:

The District’s cash deposits consisted of cash, certificates of deposit, and interest-bearing savings accounts. The Districts cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District’s agent bank in the District’s name.

As of August 31, 2017, the District had the following cash, cash equivalents and temporary investments for all governmental type funds, business type activities and fiduciary funds.

<u>Description</u>	<u>Amount</u>
Cash in Checking	\$ 4,980,020
Cash – Held in Escrow	2,746,166
Certificates of Deposit	411,314
Capital Projects Fund	1,896,241
Tex Star Pool	<u>6,619</u>
Total	<u>\$ 10,040,360</u>

Analysis of Specific Deposit and Investment Risks

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does have a deposit policy for custodial credit risk. The District is not exposed to custodial credit risk for its deposits as all are covered by FDIC insurance or by collateral held by the District’s agent bank in the District’s name.

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District’s limits its investment portfolio to maturities of one year or less as a means of limiting its exposure to fair value losses arising from fluctuating interest rates. However, the Board may specifically authorize a longer maturity for a given investment for the Debt Service and Capital Projects funds, within legal limits. The maturities of such investments are to be made to coincide as nearly as possible with the expected use of the funds.

Credit Risk: Credit risk is the risk that an issuer of counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk. As of August 31, 2017 the District’s investments in the Tex Star Investment Pool was rated AAA by Standards & Poor.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

A. Deposits and Investments – Continued

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of the government’s investment in a single issuer, the District shall diversify in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in as specific class of investments, specific maturity, or specific issuer.

Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Public Funds Investment Pools - Public funds investment pools in Texas (“Pools”) are established under the authority of the Inter-local Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying portfolio within one half of one percent of the value of its shares.

Foreign Currency Risk for Investments – The District does not make investments that have foreign currency risk.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables are based upon 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.

C Interfund Transfers and Balances

Interfund transfers at August 31, 2017 consisted of the following:

Transfers to Nonmajor Governmental Funds from:		
General Fund to Cafeteria Fund	\$ 34,257	Transfer to subsidize operations
Transfers to Major Governmental funds from:		
General fund to Debt Service Fund	548,820	Transfer effect of 313 agreement
	<u>\$ 583,077</u>	

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

D. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Governmental Activities:				
Land	\$ 551,747	\$ 0	\$ (25,000)	\$ 526,747
Buildings and Improvements	30,839,824	22,412	(79,553)	30,782,683
Furniture and Equipment	662,206	18,681	0	680,887
Vehicles	732,679		0	732,679
Total Depreciable Assets	<u>32,786,456</u>	<u>41,093</u>	<u>(104,553)</u>	<u>32,722,996</u>
Construction in Progress	2,172,234	2,553,083	0	4,725,317
Total Capital Assets	<u>34,958,690</u>	<u>2,594,176</u>	<u>(104,553)</u>	<u>37,448,313</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,028,006	875,429	(16,977)	5,886,458
Furniture and Equipment	390,218	49,496	0	439,714
Vehicles	359,145	73,547	()	432,692
Total Accumulated Depreciation	<u>5,777,369</u>	<u>998,472</u>	<u>(16,977)</u>	<u>6,758,864</u>
Governmental Capital Assets, Net	<u>\$ 29,181,321</u>	<u>\$ 1,595,704</u>	<u>\$ (87,576)</u>	<u>\$ 30,689,449</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 14,232
Student (Pupil) Transportation				35,659
Extracurricular Activities				47,568
Facilities Maintenance and Operations				846,434
Community Services				54,579
Totals				<u>\$ 998,472</u>

E. Bonds Payable

Bonds payable consist of the following:

Unlimited Tax Qualified School Construction Bonds, Series 2011A

These bonds were issued on July 15, 2011 for a face amount of \$5,000,000 at an interest rate of 4.326% and are scheduled to mature in one lump sum of \$5,000,000 on February 15, 2022. In order to provide for the payment of the lump sum of \$5,000,000, the District has agreed to deposit in a cumulative sinking fund deposit account a yearly amount of \$454,545. These total deposits will equal to the principal due February 15, 2022. The annual payments may be reduced by any interest earnings on such funds as noted by the escrow agent. In addition, the District has made an irrevocable election to treat these bonds as “specified tax credit bonds” pursuant to Section 643(f) of the Code and receive a federal subsidy from the United States Treasury with respect to each interest payment as it comes due. Interest payments are due semiannually on February 15th and August 15th.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

E. Bonds Payable - Continued

Unlimited Tax School Building Bonds, Series 2015

These bonds were issued July 30, 2015 for a face amount of \$9,235,000 to finance the construction, acquisition, renovation, improvement, and equipping of school buildings. Bonds maturing in 2016 and 2017 bear interest at 2% and 3%, respectively. The remaining bonds maturing through 2030 bear interest at 4%. The bonds are payable from an ad valorem tax levied on all taxable property located within the District. Interest payments are due semiannually on February 15th and August 15th; maturing bonds are due February 15th. The bonds maturing on and after February 15, 2021 are subject to redemption at the option of the District prior to maturity, in whole or in part, on February 20, 2020 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Unlimited Tax School Building Bonds, Series 2016

These bonds were issued January 14, 2016 for a face amount of \$5,005,000 to finance the construction, acquisition, renovation, improvement, and equipping of school buildings. Bonds maturing in 2017 and 2018 bear interest at 2% and 3%, respectively. Bonds maturing 2019 through 2021 bear interest at 4% and the remaining bonds maturing 2022 through 2026 bear interest at 3%. The bonds are payable from an ad valorem tax levied on all taxable property located within the District. Interest payments are due semiannually on February 15th and August 15th; maturing bonds are due February 15th. The bonds maturing on and after February 15, 2022 are subject to redemption at the option of the District prior to maturity, in whole or in part, on February 20, 2021 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Current Year Activity

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2011A Bonds	\$ 5,000,000	\$ 0	\$ 0	\$ 5,000,000	\$ 0
Series 2015 Bonds	8,765,000	0	(480,000)	8,285,000	495,000
Net Premium	612,526		(110,707)	501,819	0
Series 2016 Bonds	5,005,000	0	(265,000)	4,740,000	270,000
Net Premium	<u>334,683</u>	<u>0</u>	<u>(64,053)</u>	<u>270,630</u>	<u>0</u>
Totals	<u>\$ 19,717,209</u>	<u>\$ 0</u>	<u>\$ (919,760)</u>	18,797,449	<u>\$ 765,000</u>
Accrued Interest Payable				<u>20,096</u>	
Total Noncurrent Liabilities				18,817,545	
Due Within One Year (including accrued interest payable)				<u>(785,096)</u>	
Due In More Than One Year				<u>\$ 18,032,449</u>	

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

E. Bonds Payable - Continued

The combined future minimum payments for all long-term debt are as follows. These amounts do not take into effect the net premiums above. The combined totals consist of \$5,000,000 of Series 2011A Bonds, \$8,285,000 of Series 2015 Bonds, and \$4,740,000 of Series 2016 Bonds. In addition to the principal and interest requirements, the net cash flow requirements are shown to give effect to the interest subsidies and escrow deposits required for the Series 2011A Bonds as described above.

Year End August 31,	Principal	Interest	Total	Interest Subsidy	Escrow Deposit	Cash Flow
2018	\$ 765,000	\$ 684,650	\$ 1,449,650	\$ (201,375)	\$ 454,545	\$ 1,702,820
2019	795,000	654,800	1,449,800	(201,375)	454,545	1,702,970
2020	830,000	622,300	1,452,300	(201,375)	454,545	1,705,470
2021	860,000	588,500	1,448,500	(201,375)	454,545	1,701,670
2022	5,895,000	446,825	6,341,825	(100,687)	(4,545,455)	1,695,683
2023	1,390,000	298,475	1,688,475	0	0	1,688,475
2024	1,440,000	249,850	1,689,850	0	0	1,689,850
2025	1,490,000	199,475	1,689,475	0	0	1,689,475
2026	1,540,000	147,325	1,687,325	0	0	1,687,325
2027	710,000	106,600	816,600	0	0	816,600
2028	740,000	77,600	817,600	0	0	817,600
2029	770,000	47,400	817,400	0	0	817,400
2030	800,000	16,000	816,000	0	0	816,000
Totals	<u>\$ 18,025,000</u>	<u>\$ 4,139,800</u>	<u>\$ 22,164,800</u>	<u>\$ (906,187)</u>	<u>\$ (2,727,275)</u>	<u>\$ 18,531,338</u>

F. Health Care Coverage

During the period ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$250 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums are paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. Employees that do not desire to participate in the above plan may participate in an alternative health insurance plan administered by a local insurance agent. The contract between the District and the licensed insurer is renewable September 1, 2015, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for the plan are available from Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 877-0123.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2017

G. Retiree Health Plan

Plan Description – The Sterling City 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 provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.02 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and is required supplementary information for TRS-Care. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS communications Department at 1-800-223-8778, or by writing to the TRS communications Department, 1000 Red River Street, Austin, Texas 78701.

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 established state, active employee, and public school contributions, respectively. The contribution rate for the State was 1.00% for 2015, 2016, and 2017. The contribution rate for the District was 0.55% for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.00%

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State, District, Federal and employee contributions for the years ended August 31, 2017, 2016 and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District Contributions	11,950	12,835	12,919
Federal Contributions	247	469	393
State Contributions	21,478	22,865	23,096
Employee Contributions	14,122	15,168	15,267

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 effective January 1, 2006, established drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal year ended August 31, 2017, 2016 and 2015 the subsidy payments received by TRS-Care on behalf of the District were \$8,477, \$8,938, and \$8,694, respectively. The information for the year ended August 31, 2017 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

Active Employee Health Care Coverage

Plan Description. The district participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

H. Defined Benefit Pension Plan

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

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

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

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

H. Defined Benefit Pension Plan – Continued

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’s unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal year 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Sterling City ISD 2017 Employer Contributions		\$ 48,782
Sterling City ISD 2017 Member Contributions		167,287
Sterling City ISD 2016 NECE On-Behalf Contributions		138,246

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during the fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member’s salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment
- When any part or all of an employee’s salary is paid by federal funding sources or a privately sponsored source.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

H. Defined Benefit Pension Plan – Continued

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual EntryAge Normal
Asset Valuation Method Value	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	3.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

**Includes Inflation of 3%*

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

H. Defined Benefit Pension Plan – Continued

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Party			
Risk Party	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discounted rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Proportionate share of the Net Pension Liability	<u>\$ 991,791</u>	<u>\$640,831</u>	<u>\$343,146</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, the District reported a liability of \$640,831 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate of the net liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 640,831
State's proportionate share that is associated with the District	<u>1,640,954</u>
Total	<u>\$ 2,281,785</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

H. Defined Benefit Pension Plan – Continued

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer’s portion of the net pension liability was based on the employer’s contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer’s proportion of the collective net pension liability was 0.0016958% which was a decrease of 0.0001390% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation- The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

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

For the year ended August 31, 2017, the District recognized pension expense of \$170,292 and revenue of \$170,292 for support provided by the State.

At August 31, 2017 the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experiences	\$ 10,048	\$ 19,135
Changes in actuarial assumptions	19,531	17,763
Differences between projected and actual investment earnings	54,264	0
Changes in proportion and differences between the employer’s contributions and the proportionate share of contributions	<u>169,952</u>	<u>6,373</u>
Totals as of August 31, 2016 measurement date	253,795	43,271
Contributions paid to TRS subsequent to the measurement date	<u>48,782</u>	<u>0</u>
Total as of August 31, 2017	<u>\$ 302,577</u>	<u>\$ 43,271</u>

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

Year Ended August 31,	<u>Pension Expense Amount</u>
2018	\$ 38,588
2019	\$ 38,588
2020	\$ 73,200
2021	\$ 35,927
2022	\$ 24,344
Thereafter	\$ (123)

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

H. Defined Benefit Pension Plan – Continued

The net pension liability of \$640,831 is shown as a non-current liability on the statement of position and the following table shows the increases and decreases for the year.

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Net Pension Liability	\$ 648,577	\$ 46,135	\$ 53,881	\$ 640,831

I. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	State & Fed <u>Entitlements</u>	Local <u>Governments</u>	<u>Totals</u>
General Fund	\$ 459,836	\$ 7,597	\$ 467,433
Special Rev Fund	18,817	0	18,817
Debt Service	<u>0</u>	<u>1,435</u>	<u>1,435</u>
Total	<u>\$ 478,653</u>	<u>\$ 9,032</u>	<u>\$ 487,685</u>

J. Revenue from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources consisted of the following:

	General <u>Fund</u>	Debt Service <u>Fund</u>	Capital Projects <u>Fund</u>	Other <u>Funds</u>	<u>Totals</u>
Property Taxes	\$ 3,626,676	\$ 1,203,367	\$ 0	\$ 0	\$ 4,830,043
Investment Income	7,526	17,178	0	0	24,704
Food Sales	0	0	0	32,785	32,785
Co-Curricular Activities	23,177	0	0	0	23,177
Laptop student insurance	7,486	0	0	0	7,486
Rentals	24,842	0	0	0	24,842
Other	<u>14,264</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>14,264</u>
Totals	<u>\$ 3,703,971</u>	<u>\$ 1,220,545</u>	<u>\$ 0</u>	<u>\$ 32,785</u>	<u>\$ 4,957,301</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

K. Workers Compensation Insurance

The District participates in a risk pool for workers’ compensation. The District pays a contribution for the fund year to cover the servicing costs of program administration, claims handling, loss control, and stop loss coverage as well as all claims expenses. In exchange, all claims are paid until closed and there are no additional fees for services provided. The policy is retrospectively rated policy and premiums are accrued based on the ultimate costs of the experience to date of the member entities. The District is not aware of any material losses from reported or unreported claims. The District’s required contribution for the year ended August 31, 2017 was \$7,779 and was recorded as an insurance expenditure.

Changes in the liability during the past year were as follows:

Unpaid claims as of September 1, 2016	\$ 14,425
Incurred claims (including IBNRs)	3,481
Payments	<u>(2,100)</u>
Unpaid claims as of August 31, 2017	<u>\$ 15,806</u>

L. Shared Service Arrangements

The District participates in various shared service arrangement with the Education Service Center Region XV. The District does not account for revenues or expenditures in these programs and does not report them in their financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center Region XV, nor does the District have a net equity interest in the exigencies that would give rise to a future additional benefit or burden. The fiscal agent manager is responsible for all financial activities of the shared service arrangements. According to information obtained from the region center, the District participates with a number of other school districts in the following programs.

Title III LEP	\$ 1,413
Carl D Perkins	2,685

The District participates in a shared service arrangement for special education with the following school districts:

Christoval Independent School District	Eden Independent School District
Olfen Independent School District	Paint Rock Independent School District
Panther Creek Independent School District	Robert Lee Independent School District
Veribest Independent School District	Comstock Independent School District
Wall Independent School District	Water Valley Independent School District

The District expended \$130,625 to the shared service arrangements. This amount is reflected in Function 93 in these financial statements.

In addition, the District participates in a shared services arrangement for disciplinary alternative education with numerous other contracting school districts in the area. Under this program the District expended \$19,339 to the shared serviced arrangement. These expenses are also included in function 93.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2017

M. Related Party Transactions

Mr. Jason Cox, Board President, serves as a member of the Board of Trustees for the Sterling City Independent School District. He is also an employee of the First National Bank of Sterling City which serves as the District's bank depository. He has abstained from voting on any related party transactions during the current fiscal year.

N. Related Organizations

The Sterling City Education Foundation, Inc. (the "Foundation"), is a not-for-profit entity which was organized to provide additional financial resources to faculty, staff, and students of the District in order to support and enhance educational programs and opportunities available to all primary and secondary school students who live within the boundaries of or attend the District. The Foundation is a "related organization" of the District as defined by current governmental accounting principles. The members of the District board currently serve as the Foundation's board of directors. In December 2009, the Foundation contracted with the San Angelo Area Foundation, a Texas nonprofit corporation, to manage the Foundation's education grant fund for the benefit of graduates from Sterling City High School and the Foundation's agency fund. The San Angelo Area Foundation is responsible for the accounting, investing, and disbursement of Foundation funds. A request was made and received in the current year from the Foundation for laptop computers. The District did not request any amounts in the current fiscal year.

O. Tax Abatements

The Sterling City ISD Board of Trustees has approved an Agreement with the companies listed below for a Limitation On Appraised Value of Property for School Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. The companies below qualified for a tax limitation agreement under Texas Tax Code 313.0249(b)(5), as a renewable energy electric generation project.

Value limitation agreements are a part of a state program, originally created in 2001 which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The projects under the Chapter 313 agreements must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, the agreements were found to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the project. The applications, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreements and all supporting documentation were assigned Texas Comptroller Application Numbers.

After approval, the applicant companies must maintain a viable presence in the district for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2017

O. Tax Abatements - Continued

In the event any of the companies listed below terminate their agreements without the consent of the District, or in the event that the companies or its successor-in-interest fails to comply in any material respect with the terms of these agreements or to meet any material obligation under these agreements, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of these agreements together with the payment of penalty and interest, on the recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code section 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax code section 33.01(c), or its successor statute. These agreements provide an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of the date of our audit, the companies are in full compliance with all of its obligations under law and the agreement itself.

Below is the information required for each company for M&O purposes. It includes the net benefit to the district but does not include any I&S impact.

State Comptroller Application No.	Project Value	Project Value Limitation	M&O Taxes Paid	M&O Taxes Reduced	Revenue Loss Payment	Supplemental Payment to School	Net Benefit (Loss) to School
65	\$309,225,910	\$10,000,000	\$104,000	\$3,111,949	\$ 119,103	\$1,341,505	\$1,564,608
38	101,823,040	10,000,000	104,000	954,960	36,142	429,016	569,158
150	135,723,000	20,000,000	208,000	1,203,519	45,702	558,962	812,664
84	8,854,660	10,000,000	92,088	0	0	2,762	94,850
1115	0	0	0	0	0	50,000	50,000

REQUIRED SUPPLEMENTARY INFORMATION

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2017

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0016958%	0.0018348%	0.0009388%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 640,831	\$ 648,577	\$ 250,766
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,640,954	1,625,796	1,288,615
Total	<u>\$ 2,281,785</u>	<u>\$ 2,274,373</u>	<u>\$ 1,539,381</u>
District's Covered-Employee Payroll	\$ 2,333,448	\$ 2,348,814	\$ 2,126,338
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	27.46%	27.61%	11.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only three years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2017

	2017	2016	2015
Contractually Required Contribution	\$ 48,782	\$ 53,881	\$ 54,328
Contribution in Relation to the Contractually Required Contribution	(48,782)	(53,881)	(54,328)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 2,172,547	\$ 2,333,448	\$ 2,348,814
Contributions as a Percentage of Covered-Employee Payroll	2.25%	2.31%	2.31%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2017

Changes of benefit terms

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

Changes of assumptions

There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period.

REQUIRED TEA SCHEDULES

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	Various	Various	\$ Various
2009	1.040000	0.199800	1,324,908,776
2010	1.040000	0.199800	1,401,350,056
2011	1.040000	0.199800	906,308,921
2012	1.040000	0.199800	590,617,761
2013	1.040000	0.199800	614,590,176
2014	1.040000	0.199800	563,647,039
2015	1.040000	0.199800	633,587,111
2016	1.040000	0.199800	575,173,980
2017 (School year under audit)	1.040000	0.199800	387,207,695
1000 TOTALS			

The valuation amount for August 31, 2017 (school year under audit) is an adjusted amount so that the valuation multiplied by the combined tax rate equals the current levy. This is because the District entered into some Texas Tax Code Chapter 313 agreements. The adjusted M&O valuation is \$376,512,202 and the adjusted I&S valuation is \$854,412,202. In addition, all prior year valuation amounts are presented using the same methodology

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 10,314	\$ -	\$ 1,435	\$ 94	\$ (1,245)	\$ 7,540
2,172	-	635	123	(23)	1,391
2,117	-	756	145	(25)	1,191
4,217	-	507	98	(26)	3,586
3,761	-	837	161	(25)	2,738
10,873	-	1,285	247	(37)	9,304
13,841	-	3,997	769	(69)	9,006
46,662	-	4,155	788	(71)	41,648
91,937	-	22,078	4,214	(107)	65,538
-	4,808,397	3,567,660	1,192,494	-	48,243
<u>\$ 185,894</u>	<u>\$ 4,808,397</u>	<u>\$ 3,603,345</u>	<u>\$ 1,199,133</u>	<u>\$ (1,628)</u>	<u>\$ 190,185</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 30,000	\$ 30,000	\$ 32,785	\$ 2,785
5800 State Program Revenues	4,561	4,561	728	(3,833)
5900 Federal Program Revenues	55,300	55,300	65,656	10,356
5020 Total Revenues	<u>89,861</u>	<u>89,861</u>	<u>99,169</u>	<u>9,308</u>
EXPENDITURES:				
0035 Food Services	<u>172,775</u>	<u>172,775</u>	<u>133,426</u>	<u>39,349</u>
6030 Total Expenditures	<u>172,775</u>	<u>172,775</u>	<u>133,426</u>	<u>39,349</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(82,914)	(82,914)	(34,257)	48,657
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	<u>82,914</u>	<u>82,914</u>	<u>34,257</u>	<u>(48,657)</u>
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,739,573	\$ 1,739,573	\$ 1,220,545	\$ (519,028)
5800	State Program Revenues	2,630	2,630	2,625	(5)
5900	Federal Program Revenues	-	-	201,375	201,375
5020	Total Revenues	1,742,203	1,742,203	1,424,545	(317,658)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,199,545	1,199,545	745,000	454,545
0072	Interest on Long Term Debt	510,150	510,150	708,450	(198,300)
0073	Bond Issuance Cost and Fees	-	-	1,300	(1,300)
6030	Total Expenditures	1,709,695	1,709,695	1,454,750	254,945
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	32,508	32,508	(30,205)	(62,713)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	548,820	548,820
1200	Net Change in Fund Balances	32,508	32,508	518,615	486,107
0100	Fund Balance - September 1 (Beginning)	4,783,695	4,783,695	4,783,695	-
3000	Fund Balance - August 31 (Ending)	\$ 4,816,203	\$ 4,816,203	\$ 5,302,310	\$ 486,107

COMPLIANCE AND INTERNAL CONTROL SECTION

Reed, McKee & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Board of Trustees
Sterling City Independent School District
P.O. Box 786
Sterling City, Texas 76951

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Sterling City Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Sterling City Independent School District's basic financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sterling City Independent School 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 a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Reed, McKee & Co. P.C.

Reed, McKee & Co., P.C.
December 14, 2017

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

I. Summary of the Auditor's Results:

- A. The auditor's report expresses an unqualified opinion on the basic financial statements of the Sterling City Independent School District.
- B. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the 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*.
- C. No instances of noncompliance material to the basic financial statements of the Sterling City Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

NONE

SCHOOLS FIRST QUESTIONNAIRE

Sterling City Independent School District

Fiscal Year 2017

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	
SF11	Net Pension Assets (1920) at fiscal year-end.	
SF12	Net Pension Liabilities (2540) at fiscal year-end.	640831
SF13	Pension Expense (6147) at fiscal year-end.	