

STERLING CITY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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, 2018

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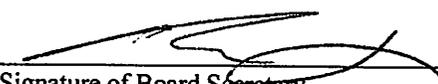
CERTIFICATE OF BOARD

Sterling City Independent School District
Name of School District

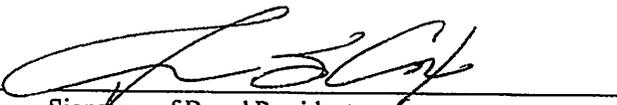
Sterling
County

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) 7 approved 0 disapproved for the year ended August 31, 2018 at a meeting of the Board of Trustees of such school district on the 16th day of January, 2019.



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, each major fund, and the aggregate remaining fund information of Sterling City Independent School District as of and for the year ended August 31, 2018, 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, each major fund, and the aggregate remaining fund information of Sterling City Independent School District as of August 31, 2018, and the respective changes in financial position 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.

Emphasis of a Matter

The District adopted new accounting guidance as prescribed by GASB #75 as it applies to the District's participation in a defined plan for Postemployment Benefits Other than Pensions. Because GASB #75 implements new measurement criteria and reporting provisions, significant information has been added to the government-wide financial statements. The Statement of Net Position (Exhibit A-1) includes the District's net other postemployment benefits liability as well as deferred resource outflows and inflows related to the postemployment plan. The Statement of Activities (Exhibit B-1) includes a prior period adjustment to the District's beginning net position. Footnote IIIJ provides disclosure information and two new required supplementary information schedules are also included (Exhibit E-3 and E-4). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements as well as the Required Supplementary Information on pages 48 to 52. 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 12, 2018 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 12, 2018

**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, 2018. 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 increased by \$957,110 as a result of this year's operations as shown on Exhibit B-1 and decreased by \$1,788,544 due to a prior period adjustment related to the closing of the proprietary fund into the general fund and the net adjustment required to implement GASB 75. This new statement as discussed later in detail in the footnotes was implemented to show the District's share of the obligation for the net other post-employment benefits. In connection with this new pronouncement there are the corresponding increases and decreases in the deferred inflows and outflows which are also discussed in the following footnotes. The District also has \$13,210,263 in the net investment in capital assets. This amount increased considerably due to capital additions as the school continued with their capital projects. The \$5,546,587 shown as restricted for debt service includes \$3,245,037 of cash in escrow to pay off the Series 2011A bonds as required by agreement. Total assets of the governmental activities decreased by \$713,876 with a corresponding decrease in total liabilities of \$473,432 as can be seen on Table I following. Cash and cash equivalents decreased by \$196,141 as the district continued to spend on the bond projects. Bonds payable decreased by \$921,976 as the district continued to pay down on the principal. This decrease was offset with the adding of the new liability for the other postemployment liability of \$1,020,197.

As shown in Table II on page 8 the District has combined governmental fund revenues of \$6,955,760 consisting of charges for services, operating grants and general revenues. This represents a decrease of \$683,305 as compared to the prior year. The decrease is primarily due to the negative revenue in the operating grants and contributions column which is discussed in detail in footnote T. As can be seen on Table II property taxes for the general fund remained fairly constant with the decrease in debt service taxes of \$155,185. Assessed values also decreased by approximately \$10,000,000. With the continuing decrease in assessed values the amount paid back to the state as a Chapter 41 school district also decreased by \$574,831. The District had \$5,998,650 of total governmental fund expenses that were offset by \$114,573 of charges for services and a negative revenue of \$132,544 of operating grants and contributions. This left net expenses of \$6,016,621 which were funded by general revenues of \$6,973,731. Expenses decreased by \$1,503,800 as compared to the prior year.

Utilizing the information on Exhibits C-1 and C-3, the fund financial statements show a decrease in total governmental fund assets of \$1,403,777 and a decrease in liabilities of \$577,764. The decrease in assets and liabilities is due to the decrease in amounts due to the debt service funds representing the effect of the 313 agreement calculations for taxes. The additional decreases in the assets is due to a much smaller amount due from the state for the current year settlement on the foundation funds. Unassigned fund balance totaled \$2,659,684 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 increased \$131,394. Local revenues increased from 65% of total funding in the general fund to 69%. This 4% gain in local revenues was offset with the 4% loss in state funding. State funding decreased from 30% to 26% in the current year. The average daily attendance increased to 290 in 2018 compared to 285 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 \$964,727 with the continued building on renovation of several areas on the campus. The Debt Service Fund showed an increase of \$247,046 mainly due to the transfer of funds from the general fund to the debt service fund of \$369,904. 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 anticipated a \$114,796 increase in the general fund balance. The final budget was amended in certain functional areas to show a net increase of \$39,796. As can be seen with a comparison to actual, the net change in the general fund balance was an increase of \$661,136. Actual revenues were \$510,470 more than budgeted while actual expenses were \$465,150 less than budgeted. Also as shown on Exhibit C-5 the district budgeted \$68,498 for transfers to the debt service fund and actual amounts transferred were \$424,686 as a result of the 313 agreements.

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 as 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.

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.

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 decreased from \$21,504,677 to \$20,673,243. 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 \$1,916,393 at August 31, 2018. The large increase in Capital assets, net is the funds spent on the construction projects. See footnote III E for more information.

Table I – Net Position

	Governmental Activities		
	2018	2017	Change
Current and other assets	\$ 10,038,171	\$ 10,632,762	\$ (594,591)
Capital assets, net	<u>30,570,164</u>	<u>30,689,449</u>	<u>(119,285)</u>
Total assets	<u>40,608,335</u>	<u>41,322,211</u>	<u>(713,876)</u>
Deferred outflows	<u>235,158</u>	<u>302,577</u>	<u>(67,419)</u>
Long term liabilities	18,576,589	18,673,280	(96,691)
Other liabilities	<u>1,026,819</u>	<u>1,403,560</u>	<u>(376,741)</u>
Total liabilities	<u>19,603,408</u>	<u>20,476,840</u>	<u>(473,432)</u>
Deferred inflows	<u>566,842</u>	<u>43,271</u>	<u>523,571</u>
Net position:			
Invested in capital assets, net of related debt	13,210,263	13,451,608	(241,345)
Restricted for debt service	5,546,587	5,307,028	239,559
Unrestricted	<u>1,916,393</u>	<u>2,746,041</u>	<u>(829,648)</u>
Total net position	<u>\$ 20,673,243</u>	<u>\$ 21,504,677</u>	<u>\$ (828,434)</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.

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		
	2018	2017	Change
Revenues			
Program revenues			
Charges for services	\$ 114,573	\$ 80,804	\$ 33,769
Operating grants and contributions	(132,544)	593,639	(726,183)
General revenues			
Property tax revenues- general	3,676,687	3,625,879	50,808
Property tax revenues – debt service	1,048,125	1,203,310	(155,185)
State aid- formula grants	1,802,061	2,039,406	(237,345)
Grants & contributions not rest	4,771	7,950	(3,179)
Investment earnings	101,577	24,704	76,873
Miscellaneous	340,510	63,373	277,137
Total revenues	<u>\$ 6,955,760</u>	<u>\$ 7,639,065</u>	<u>(683,305)</u>
Expenses			
Instruction	1,483,154	1,874,299	(391,145)
Instructional resources & media serv	29,557	56,730	(27,173)
Curriculum & staff development	50,311	19,986	30,325
Instructional leadership	6,753	6,081	672
School leadership	150,206	250,900	(100,694)
Guidance, counseling, & evaluation services	39,159	54,312	(15,153)
Health services	14,004	19,986	(5,982)
Student (pupil) transportation	144,174	141,792	2,382
Food Services	128,370	144,187	(15,817)
Extracurricular activities	343,252	347,198	(3,946)
General administration	303,473	376,725	(73,252)
Facility maintenance & operations	1,501,242	1,434,461	66,781
Security & monitoring services	43,822	10,642	33,180
Data processing services	93,211	108,160	(14,949)
Community services	92,317	90,151	2,166
Debt service – interest	526,511	532,870	(6,359)
Debt service – bond costs	1,500	1,300	200
Capital outlay	37,907	33,271	4,636
Contracted inst services between schools	729,772	1,304,603	(574,831)
Payments related to shared service arrangements	148,689	149,964	(1,275)
Other intergovernmental charges	131,266	137,441	(6,175)
Total expenses	<u>5,998,650</u>	<u>7,084,001</u>	<u>(1,096,409)</u>
Change in net assets	957,110	555,064	402,046
Net position-beginning	21,504,677	20,949,613	555,064
Prior period adjustment	(1,788,544)	0	(1,788,544)
Net position-ending	<u>\$ 20,673,243</u>	<u>\$ 21,504,677</u>	<u>\$ (831,434)</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 \$9,724,612 compared to a balance of \$9,860,100 in the prior year. This represents a \$135,854 decrease in the fund balance again due to the construction expenses of \$1,044,036 offset by the increases in fund balance in the general and debt service funds as shown on Exhibit C-3.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had \$38,467,312 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 \$7,897,148. Current year additions included the ongoing construction project mainly and can be seen in the footnote III.E 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.F in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted a 2019 budget for the General Fund in the amount of \$8,114,964 for the general fund expenditures. The 2019 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, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 9,769,021
1220 Property Taxes - Delinquent	133,892
1230 Allowance for Uncollectible Taxes	(33,219)
1240 Due from Other Governments	152,321
1290 Other Receivables, Net	16,156
Capital Assets:	
1510 Land	526,747
1520 Buildings, Net	29,568,979
1530 Furniture and Equipment, Net	474,438
1000 Total Assets	40,608,335
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	216,755
1706 Deferred Outflow Related to TRS OPEB	18,403
1700 Total Deferred Outflows of Resources	235,158
LIABILITIES	
2110 Accounts Payable	93,875
2160 Accrued Wages Payable	116,477
2200 Accrued Expenses	2,534
Noncurrent Liabilities:	
2501 Due Within One Year	813,933
2502 Due in More Than One Year	17,080,473
2540 Net Pension Liability (District's Share)	475,919
2545 Net OPEB Liability (District's Share)	1,020,197
2000 Total Liabilities	19,603,408
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Resource Inflow Related to TRS Pension	140,092
2606 Deferred Resource Inflow Related to TRS OPEB	426,750
2600 Total Deferred Inflows of Resources	566,842
NET POSITION	
3200 Net Investment in Capital Assets	13,210,263
3850 Restricted for Debt Service	5,546,587
3900 Unrestricted	1,916,393
3000 Total Net Position	\$ 20,673,243

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, 2018

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Position
			Contributions	Primary Gov.
				Governmental
				Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 1,483,154	\$ -	\$ (197,984)	\$ (1,681,138)
12 Instructional Resources and Media Services	29,557	-	(5,085)	(34,642)
13 Curriculum and Instructional Staff Development	50,311	-	69	(50,242)
21 Instructional Leadership	6,753	-	2,206	(4,547)
23 School Leadership	150,206	-	(36,285)	(186,491)
31 Guidance, Counseling and Evaluation Services	39,159	-	(10,105)	(49,264)
33 Health Services	14,004	-	(1,980)	(15,984)
34 Student (Pupil) Transportation	144,174	-	(4,021)	(148,195)
35 Food Services	128,370	39,706	48,058	(40,606)
36 Extracurricular Activities	343,252	16,640	(20,229)	(346,841)
41 General Administration	303,473	-	(41,652)	(345,125)
51 Facilities Maintenance and Operations	1,501,242	44,986	(45,150)	(1,501,406)
52 Security and Monitoring Services	43,822	-	(3,591)	(47,413)
53 Data Processing Services	93,211	-	(19,903)	(113,114)
61 Community Services	92,317	13,241	(1,986)	(81,062)
72 Debt Service - Interest on Long-Term Debt	526,511	-	205,094	(321,417)
73 Debt Service - Bond Issuance Cost and Fees	1,500	-	-	(1,500)
81 Capital Outlay	37,907	-	-	(37,907)
91 Contracted Instructional Services Between Schools	729,772	-	-	(729,772)
93 Payments Related to Shared Services Arrangements	148,689	-	-	(148,689)
99 Other Intergovernmental Charges	131,266	-	-	(131,266)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 5,998,650	\$ 114,573	\$ (132,544)	(6,016,621)

Data	General Revenues:		
Control			
Codes			
	Taxes:		
MT	Property Taxes, Levied for General Purposes		3,676,687
DT	Property Taxes, Levied for Debt Service		1,048,125
SF	State Aid - Formula Grants		1,802,061
GC	Grants and Contributions not Restricted		4,771
IE	Investment Earnings		101,577
MI	Miscellaneous Local and Intermediate Revenue		340,510
TR	Total General Revenues		6,973,731
CN	Change in Net Position		957,110
NB	Net Position - Beginning		21,504,677
PA	Prior Period Adjustment		(1,788,544)
NE	Net Position--Ending		\$ 20,673,243

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 4,109,894	\$ 5,174,945	\$ 508,842
1220 Property Taxes - Delinquent	113,111	20,781	-
1230 Allowance for Uncollectible Taxes	(28,602)	(4,617)	-
1240 Due from Other Governments	111,428	4,507	-
1260 Due from Other Funds	-	369,904	6,730
1290 Other Receivables	16,156	-	-
1000 Total Assets	<u>\$ 4,321,987</u>	<u>\$ 5,565,520</u>	<u>\$ 515,572</u>
LIABILITIES			
2110 Accounts Payable	\$ 88,591	\$ -	\$ -
2160 Accrued Wages Payable	110,285	-	-
2170 Due to Other Funds	376,634	-	-
2200 Accrued Expenditures	2,284	-	-
2000 Total Liabilities	<u>577,794</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	84,509	16,164	-
2600 Total Deferred Inflows of Resources	<u>84,509</u>	<u>16,164</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3470 Capital Acquisition and Contractual Obligation	-	-	515,572
3480 Retirement of Long-Term Debt	-	5,549,356	-
Committed Fund Balance:			
3510 Construction	1,000,000	-	-
3600 Unassigned Fund Balance	2,659,684	-	-
3000 Total Fund Balances	<u>3,659,684</u>	<u>5,549,356</u>	<u>515,572</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,321,987</u>	<u>\$ 5,565,520</u>	<u>\$ 515,572</u>

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

Other Funds	Total Governmental Funds
\$ (24,660)	\$ 9,769,021
-	133,892
-	(33,219)
36,386	152,321
-	376,634
-	16,156
<u>\$ 11,726</u>	<u>\$ 10,414,805</u>
\$ 5,284	\$ 93,875
6,192	116,477
-	376,634
250	2,534
<u>11,726</u>	<u>589,520</u>
-	100,673
-	100,673
-	515,572
-	5,549,356
-	1,000,000
-	2,659,684
<u>-</u>	<u>9,724,612</u>
<u>\$ 11,726</u>	<u>\$ 10,414,805</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	9,724,612
1 Net capital assets used in governmental activities are reported in the Statement of Net Position.		30,570,164
2 The district's contributions made to TRS and TRS-Care subsequent to the 8/31/17 net pension and OPEB liability date as well as the district's proportionate share of the TRS and TRS-Care collective deferred outflows are reported in the Statement of Net Position.		235,158
3 Bonds (including premiums and accrued interest) are reported in the Statement of Net Position.		(17,894,406)
4 The district's proportionate share of the TRS and TRS-Care net pension and OPEB liabilities are reported in the Statement of Net Position.		(1,496,116)
5 The district's proportionate share of the TRS and TRS-Care collective deferred inflows are reported in the Statement of Net Position.		(566,842)
6 Net delinquent property taxes receivable are not deferred in the Statement of Net Position.		100,673
19 Net Position of Governmental Activities	<u>\$</u>	<u>20,673,243</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 BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 4,170,186	\$ 1,123,197	\$ -
5800 State Program Revenues	1,984,911	3,070	-
5900 Federal Program Revenues	4,770	202,025	-
5020 Total Revenues	<u>6,159,867</u>	<u>1,328,292</u>	<u>-</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,957,377	-	-
0012 Instructional Resources and Media Services	38,830	-	-
0013 Curriculum and Instructional Staff Development	54,140	-	-
0021 Instructional Leadership	4,547	-	-
0023 School Leadership	230,162	-	-
0031 Guidance, Counseling and Evaluation Services	60,462	-	-
0033 Health Services	18,010	-	-
0034 Student (Pupil) Transportation	116,430	-	-
0035 Food Services	5,925	-	-
0036 Extracurricular Activities	347,538	-	-
0041 General Administration	400,099	-	-
0051 Facilities Maintenance and Operations	611,603	-	-
0052 Security and Monitoring Services	50,148	-	-
0053 Data Processing Services	129,754	-	-
0061 Community Services	41,201	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	765,000	-
0072 Interest on Long-Term Debt	-	684,650	-
0073 Bond Issuance Cost and Fees	-	1,500	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	1,044,036
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	729,772	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	148,689	-	-
0099 Other Intergovernmental Charges	131,266	-	-
6030 Total Expenditures	<u>5,075,953</u>	<u>1,451,150</u>	<u>1,044,036</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,083,914</u>	<u>(122,858)</u>	<u>(1,044,036)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	1,307	-	-
7915 Transfers In	-	369,904	-
7949 Other Resources	601	-	-
8911 Transfers Out (Use)	(424,686)	-	-
7080 Total Other Financing Sources (Uses)	<u>(422,778)</u>	<u>369,904</u>	<u>-</u>
1200 Net Change in Fund Balances	661,136	247,046	(1,044,036)
0100 Fund Balance - September 1 (Beginning)	2,998,182	5,302,310	1,559,608
1300 Increase (Decrease) in Fund Balance	366	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,659,684</u>	<u>\$ 5,549,356</u>	<u>\$ 515,572</u>

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

Other Funds	Total Governmental Funds
\$ 39,706	\$ 5,333,089
2,624	1,990,605
152,332	359,127
194,662	7,682,821
84,851	2,042,228
-	38,830
3,879	58,019
2,206	6,753
-	230,162
-	60,462
-	18,010
-	116,430
158,508	164,433
-	347,538
-	400,099
-	611,603
-	50,148
-	129,754
-	41,201
-	765,000
-	684,650
-	1,500
-	1,044,036
-	729,772
-	148,689
-	131,266
249,444	7,820,583
(54,782)	(137,762)
-	1,307
54,782	424,686
-	601
-	(424,686)
54,782	1,908
-	(135,854)
-	9,860,100
-	366
\$ -	\$ 9,724,612

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, 2018

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	(135,854)
Capital outlay expenditures are capitalized in the government-wide financial statements.		1,018,999
Depreciation of capital assets is recognized in the government-wide financial statements.		(1,138,284)
Bond repayments are reported as a decrease in liabilities in the government-wide financial statements.		765,000
Amortization of bond premiums is recognized in the government-wide financial statements.		156,976
Accrued interest payable on bonds is reported in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.		1,163
The State of Texas' proportionate share of the district's TRS pension and TRS-Care OPEB expense as determined under the provisions of GASB 68 and 75 is recorded as a revenue and expense in the Statement of Activities. This amount was less than the statutory amount contributed and reported as on-behalf revenue and expenditure in the fund financial statements.		(675,444)
TRS pension and TRS-Care OPEB expense as reported in the Statement of Activities and determined under the provisions of GASB 68 and 75 was less than the amount reported in the fund financial statements.		1,018,079
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.		(53,525)
Change in Net Position of Governmental Activities	\$	957,110

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2018

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	\$ 3,520,426	\$ 3,922,273	\$ 4,170,186	\$ 247,913
5800	State Program Revenues	1,725,124	1,725,124	1,984,911	259,787
5900	Federal Program Revenues	2,000	2,000	4,770	2,770
5020	Total Revenues	5,247,550	5,649,397	6,159,867	510,470
EXPENDITURES:					
Current:					
0011	Instruction	1,818,282	2,023,282	1,957,377	65,905
0012	Instructional Resources and Media Services	42,628	42,628	38,830	3,798
0013	Curriculum and Instructional Staff Development	36,702	61,702	54,140	7,562
0021	Instructional Leadership	4,000	4,547	4,547	-
0023	School Leadership	243,863	243,863	230,162	13,701
0031	Guidance, Counseling and Evaluation Services	59,279	61,779	60,462	1,317
0033	Health Services	17,642	18,242	18,010	232
0034	Student (Pupil) Transportation	124,160	185,160	116,430	68,730
0035	Food Services	5,433	5,933	5,925	8
0036	Extracurricular Activities	329,434	354,434	347,538	6,896
0041	General Administration	425,300	425,300	400,099	25,201
0051	Facilities Maintenance and Operations	615,030	615,030	611,603	3,427
0052	Security and Monitoring Services	9,400	84,400	50,148	34,252
0053	Data Processing Services	138,978	138,978	129,754	9,224
0061	Community Services	39,735	42,435	41,201	1,234
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	760,751	835,751	729,772	105,979
0093	Payments to Fiscal Agent/Member Districts of SSA	145,039	149,039	148,689	350
0099	Other Intergovernmental Charges	248,600	248,600	131,266	117,334
6030	Total Expenditures	5,064,256	5,541,103	5,075,953	465,150
1100	Excess of Revenues Over Expenditures	183,294	108,294	1,083,914	975,620
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	1,307	1,307
7949	Other Resources	-	-	601	601
8911	Transfers Out (Use)	(68,498)	(68,498)	(424,686)	(356,188)
7080	Total Other Financing Sources (Uses)	(68,498)	(68,498)	(422,778)	(354,280)
1200	Net Change in Fund Balances	114,796	39,796	661,136	621,340
0100	Fund Balance - September 1 (Beginning)	2,998,182	2,998,182	2,998,182	-
1300	Increase (Decrease) in Fund Balance	-	-	366	366
3000	Fund Balance - August 31 (Ending)	\$ 3,112,978	\$ 3,037,978	\$ 3,659,684	\$ 621,706

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, 2018

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 79,878
Total Assets	<u>\$ 79,878</u>
LIABILITIES	
Due to Student Groups	\$ 79,878
Total Liabilities	<u>\$ 79,878</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, 2018

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.

Other Post-Employment Benefits. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan 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 OPEB liability, deferred outflow of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

Sterling City Independent School District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

B. Government-Wide and Fund Financial Statements - Continued

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.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental 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.

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

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

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.

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting.

Agency funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

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.

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, 2018

E. Other Accounting Policies

1. 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.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental 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.

3. 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, 2018, but is deemed to be immaterial.
4. Land, buildings, furniture and equipment are reported in the applicable governmental 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

5. 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

E. Other Accounting Policies - Continued

6. 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.
7. 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*.

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, technology, 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.

8. 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.
9. 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

E. Other Accounting Policies - Continued

10. 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.
11. 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 of 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.
12. The preparation of financial statements in conformity with GAAP requires the use of management estimates.
13. 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 F-2 and F-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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

II. Stewardship, Compliance, and Accountability – Continued

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.

B. Excess of Expenditures over Appropriations

None

III. Detailed Notes on all Funds and Account Groups

A. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair market value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

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 Funds 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 participates in the pool and other person who do not have a 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.

The District’s investments in Pools are reported at an amount determined by the fair value per share of the pool’s underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

A. Cash, Cash Equivalents and Investments- Continued

As of August 31, 2018, the following are the District’s cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Year</u>	<u>1-10 Years</u>	<u>Years</u>	<u>Rating</u>
Money Market and FDIC						
Insured Accounts	\$6,105,954	62.5%	\$6,105,954	0	0	N/A
Certificates of Deposit	411,314	4.2%	411,314	0	0	N/A
QSBC Cash Account	3,245,037	33.2%	0	3,245,037	0	N/A
Investment Pools:						
TexStar	6,716	0.1%	6,716	0	0	AAA
Total Cash and Cash Equivalents	<u>\$9,769,021</u>		<u>\$ 6,523,984</u>	<u>\$3,245,037**</u>		

**This account is kept in an escrow account for repayment of 2011 Series A bonds in 2022.

Investments

District Policies and Legal and Contractual Provisions Governing Investments

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 authorized the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an “A”, (4) no load money market funds with a weighted average maturity of 90 days or less, (5) fully collateralized repurchase agreements, (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit, (7) secured corporate bonds rated not lower than “AA-“ or the equivalent, (8) public fund investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. 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.

Additional policies and contractual provisions governing investments for Sterling City Independent School District are specified below:

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limit investments in certain investments to the top ratings issued by nationally recognized statistical rating organizations.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

A. Cash, Cash Equivalents and Investments – Continued

Custodial Credit Risk – Investments: To limit 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 the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District’s name and held by the District or its agent.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government’s investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they could cause investment risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government.

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that a majority of the investments portfolio to have maturities of less than one year.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment.

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.

C. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D Interfund Transfers and Balances

Interfund transfers at August 31, 2018 consisted of the following:

Transfers to Nonmajor Governmental Funds from:		
General Fund to Cafeteria Fund	\$ 54,782	Transfer to subsidize operations
Transfers to Major Governmental funds from:		
General fund to Debt Service Fund	<u>369,904</u>	Transfer effect of 313 agreement
	<u>\$424,686</u>	

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

E. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Governmental Activities:				
Land	\$ 526,747	\$ 0	\$ 0	\$ 526,747
Buildings and Improvements	30,782,683	5,690,044	0	36,472,727
Furniture and Equipment	680,887	54,272	0	735,159
Vehicles	732,679	0	0	732,679
Total Depreciable Assets	<u>32,722,996</u>	<u>5,744,316</u>	<u>0</u>	<u>38,467,312</u>
Construction in Progress	4,725,317	964,727	(5,690,044)	0
Total Capital Assets	<u>37,448,313</u>	<u>6,709,043</u>	<u>(5,690,044)</u>	<u>38,467,312</u>
Less Accumulated Depreciation:				
Buildings and Improvements	5,886,458	1,017,290	0	6,903,748
Furniture and Equipment	439,714	52,232	0	492,946
Vehicles	432,692	67,762	0	500,454
Total Accumulated Depreciation	<u>6,758,864</u>	<u>1,138,284</u>	<u>0</u>	<u>7,897,148</u>
Governmental Capital Assets, Net	<u>\$ 30,689,449</u>	<u>\$5,570,759</u>	<u>\$(5,690,044)</u>	<u>\$30,570,164</u>
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 15,114
Student (Pupil) Transportation				36,659
Extracurricular Activities				46,407
Facilities Maintenance and Operations				986,525
Community Services				54,579
Totals				<u>\$ 1,138,284</u>

F. 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, 2018

F. 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	8,285,000	0	(495,000)	7,790,000	515,000
Net Premium	501,819	0	(97,716)	404,103	0
Series 2016 Bonds	4,740,000	0	(270,000)	4,470,000	280,000
Net Premium	<u>270,630</u>	<u>0</u>	<u>(59,260)</u>	<u>211,370</u>	<u>0</u>
Totals	<u>\$ 18,797,449</u>	<u>\$ 0</u>	<u>\$ (921,976)</u>	17,875,473	<u>\$ 795,000</u>
Accrued Interest Payable				<u>18,933</u>	
Total Noncurrent Liabilities				17,894,406	
Due Within One Year (including accrued interest payable)				<u>(813,933)</u>	
Due In More Than One Year				<u>\$ 17,080,473</u>	

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

F. 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, \$7,790,000 of Series 2015 Bonds, and \$4,470,000 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
2019	\$ 795,000	\$ 654,800	\$ 1,449,800	\$ (202,024)	\$ 454,545	\$ 1,702,321
2020	830,000	622,300	1,452,300	(202,024)	454,545	1,704,821
2021	860,000	588,500	1,448,500	(202,025)	454,545	1,701,021
2022	5,895,000	446,825	6,341,825	(101,012)	(4,545,455)	1,695,385
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	<u>800,000</u>	<u>16,000</u>	<u>816,000</u>	<u>0</u>	<u>0</u>	<u>816,000</u>
Totals	<u>\$ 17,260,000</u>	<u>\$ 3,455,150</u>	<u>\$ 20,715,150</u>	<u>\$ (707,085)</u>	<u>\$ (3,181,818)</u>	<u>\$ 16,826,247</u>

G. Fund Balances

Fund balances consist of restricted balances which are set aside for retirement of debt of \$5,549,356, and amounts unspent in the capital projects fund of \$515,572. Committed fund balance consists of the following amounts which were approved by the Board of Trustees.

Building Construction	<u>\$ 1,000,000</u>
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The remaining fund balance of \$2,659,684 is unassigned and available for operations of the next year.

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

H. Defined Benefit Pension Plan – Continued

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.

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 2017 and 2018.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

H. Defined Benefit Pension Plan – Continued

Contribution Rates

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Sterling City ISD 2018 Employer Contributions	\$ 52,824
Sterling City ISD 2018 Member Contributions	181,901
Sterling City ISD 2017 NECE On-Behalf Contributions	128,549

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.

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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
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%

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

H. Defined Benefit Pension Plan – Continued

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, 2017 are summarized below:

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

H. Defined Benefit Pension Plan – Continued

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 2017 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	\$ 802,306	\$ 475,919	\$ 204,149

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the District reported a liability of \$475,919 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	\$ 475,919
State’s proportionate share that is associated with the District	<u>1,256,768</u>
Total	<u>\$ 1,732,687</u>

The net pension liability was measured as of August 31, 2017 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, 2016 through August 31, 2017.

At August 31, 2017 the employer’s proportion of the collective net pension liability was 0.0014884285%. which was a decrease of 0.0002074074% from its proportion measured as of August 31, 2016.

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 \$166,416 and revenue of \$95,861 for support provided by the State in the Government-wide Statement of Activities. The expense includes the District’s share of GASB 68 expense, as well as the District’s proportionate share of the State’s on-behalf expense.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

H. Defined Benefit Pension Plan – Continued

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	\$ 6,963	\$ 25,666
Changes in actuarial assumptions	21,679	12,411
Differences between projected and actual investment earnings	0	34,684
Changes in proportion and differences between the employer’s contributions and the proportionate share of contributions	<u>135,289</u>	<u>67,331</u>
Totals as of August 31, 2017 measurement date	163,931	140,092
Contributions paid to TRS subsequent to the measurement date	<u>52,824</u>	<u>0</u>
Total as of August 31, 2018	<u>\$ 216,755</u>	<u>\$ 140,092</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>
2019	\$ 7,210
2020	\$ 37,589
2021	\$ 4,875
2022	\$ (5,702)
2023	\$ (11,598)
Thereafter	\$ (8,535)

The net pension liability of \$475,919 is shown as a non-current liability on the statement of position and the following table shows the increases and decreases for the year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Net Pension Liability	<u>\$ 640,831</u>	<u>\$ (116,130)</u>	<u>\$ 48,782</u>	<u>\$ 475,919</u>

I. Unavailable Revenue

Unavailable revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	<u>\$ 84,509</u>	<u>\$ 16,164</u>	<u>\$ 100,673</u>

**J. Defined Other Post-Employment Benefit Plan
 Plan Description**

Sterling City Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

J. Defined Other Post-Employment Benefit Plans – Continued

OPEB Plan Fiduciary Net Position

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	<u>339,535,986</u>
Net OPEB Liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total Liability	0.91%

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-CARE 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A & B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates
 Effective Sept. 1, 2016 – Dec. 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree or surviving spouse	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree or surviving spouse and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

J. Defined Other Post-Employment Benefit Plans – Continued

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
Sterling City ISD – 2018 Employer Contributions	\$	18,246
Sterling City ISD – 2018 Member Contributions	\$	15,355
Sterling City ISD – 2017 NECE On-Behalf Contributions	\$	21,362

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212.0 million in fiscal year 2018.

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

J. Defined Other Post-Employment Benefit Plans- Continued

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS Pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate *	3.42% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost.
Payroll Growth Rate	2.50%
Projected Salary Increases **	3.50% to 9.50% **
Healthcare Trend Rates ***	4.50% to 12.00% ***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

**Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds are reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.*

***Includes inflation at 2.50%*

****Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.*

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payment to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

J. Defined Other Post-Employment Benefit Plans – Continued

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB Liability	\$ 1,204,086	\$ 1,020,197	\$ 872,392

Healthcare cost Trend Rates Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate:

	1% Decrease	Current Healthcare cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 849,416	\$ 1,020,197	\$ 1,244,284

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2018, the District reported a liability of \$1,020,197 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 1,020,197
State's proportionate share that is associated with the District	<u>1,786,795</u>
Total	<u>\$ 2,806,992</u>

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contribution of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective net OPEB liability was 0.0023460230%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

J. Defined Other Post-Employment Benefit Plans - Continued

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period.

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

2018 thresholds of \$850/2,292 were indexed annual by 2.50%

Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax

There was no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increase or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

There were not changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

For the year ended August 31, 2018, the District recognized OPEB expense of \$ (940,029) and revenue of \$(597,909) for support provided by the State. The negative net revenue of \$(597,909) is reflected on the Statement of Activities under the heading of Operating Grants and Contributions. For a detailed explanation of this see footnote T.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

J. Defined Other Post-Employment Benefit Plans- Continued

At August 31, 2018, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	<u>Deferred Outflow Of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 21,297
Changes in actuarial assumptions	0	405,453
Differences between projected and actual investment		
Earnings	155	0
Changes in proportion and difference between the		
District’s contributions and the proportionate		
share of contributions	<u>2</u>	<u>0</u>
Total as of August 31, 2017 measurement date	\$ 157	\$ 426,750
Contributions paid to TRS subsequent to the measurement date	<u>18,246</u>	<u>0</u>
Total as of August 31, 2018 fiscal year end	<u>\$ 18,403</u>	<u>\$ 426,750</u>

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

<u>Year ended August 31,</u>	<u>Amount</u>
2019	\$ (56,289)
2020	(56,289)
2021	(56,290)
2022	(56,290)
2023	(56,329)
Thereafter	(145,106)

The net OPEB liability of \$1,020,197 is shown as a non-current liability on the Statement of Position and the following table shows the increases and decreases for the year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Net OPEB Liability	<u>\$ 1,801,107</u>	<u>\$ (768,713)</u>	<u>\$ 12,197</u>	<u>\$ 1,020,197</u>

K. 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

L. 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, 2018, 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>	<u>State & Fed Entitlements</u>	<u>Local Governments</u>	<u>Totals</u>
General Fund	\$ 87,652	\$ 23,776	\$ 111,428
Special Rev Fund	36,386	0	36,386
Debt Service	<u>0</u>	<u>4,507</u>	<u>4,507</u>
Total	<u>\$ 124,038</u>	<u>\$ 28,283</u>	<u>\$ 152,321</u>

M. Revenue from Local and Intermediate Sources

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Totals</u>
Property Taxes	\$ 3,721,562	\$ 1,056,776	\$ 0	\$ 0	\$ 4,778,338
Investment Income	35,156	66,421	0	0	101,577
Food Sales	0	0	0	39,706	39,706
Co-Curricular Activities	29,881	0	0	0	29,881
Laptop student insurance	13,373	0	0	0	13,373
Rentals	44,986	0	0	0	44,986
Donations	316,000	0	0	0	316,000
Other	<u>9,228</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,228</u>
Totals	<u>\$ 4,170,186</u>	<u>\$ 1,123,197</u>	<u>\$ 0</u>	<u>\$ 39,706</u>	<u>\$ 5,333,089</u>

N. 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, 2018 was \$7,370 and was recorded as an insurance expenditure.

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

Unpaid claims as of September 1, 2017	\$ 15,806
Incurred claims (including IBNRs)	2,460
Payments	<u>(1,656)</u>
Unpaid claims as of August 31, 2018	<u>\$ 16,610</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
 YEAR ENDED AUGUST 31, 2018

O. 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	\$ 1,207
Carl D Perkins	2,373

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 \$125,668 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 \$23,021 to the shared serviced arrangement. These expenses are also included in function 93.

P. 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.

Q. 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 made several requests and amounts are show as donations of \$316,000 in local revenues of the general fund.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

R. 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.

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

R. Tax Abatements - Continued

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	\$249,784,610	\$10,000,000	\$ 52,000	\$2,545,760	\$ 0	\$1,118,118	\$1,118,118
38	86,377,820	86,377,820	898,329	0	0	345,980	345,980
150	120,480,000	20,000,000	104,000	1,148,992	2,022	506,932	508,954
84	7,807,860	7,807,860	74,298	6,904	0	2,762	2,762
1115	0	0	0	0	0	50,000	50,000

S. Prior Period Adjustment

During the year ended August 31, 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$1,788,910. In addition to this, the proprietary fund from the previous year was closed to the general fund in the current year resulting in an increase in fund balance of \$366. The combination of these two amounts is shown in the prior period adjustment amount of \$1,788,544.

T. Negative Operating Grants and Contributions –Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pension OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the current year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

T. Negative Operating Grants and Contributions –Statement of Activities

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded.

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11- Instruction	\$ (197,984)	\$ (343,305)	\$ 145,321
12- Instructional Resources and Media Services	(5,085)	(6,170)	1,085
13- Curriculum Development and Inst Staff Development	69	(4,624)	4,693
21- Instructional Leadership	2,206	0	2,206
23- School Leadership	(36,285)	(44,043)	7,758
31- Guidance, Counseling and Evaluation Services	(10,105)	(12,266)	2,161
33- Health Services	(1,980)	(2,403)	423
34- Student (Pupil) Transportation	(4,021)	(4,682)	861
35- Food Services	48,058	(19,374)	67,432
36- Extracurricular Activities	(20,229)	(24,554)	4,325
41- General Administration	(41,652)	(50,557)	8,905
51- Facility Maintenance and Operation	(45,150)	(54,804)	9,654
52- Security and Monitoring Services	(3,591)	(4,359)	768
53- Data Processing Services	(19,903)	(24,158)	4,255
61- Community Service	(1,986)	(2,410)	424
72- Debt Service – Interest on Long-Term Debt	205,094	0	205,094
	<u>\$ (132,544)</u>	<u>\$ (597,909)</u>	<u>\$ 465,365</u>

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, 2018

	FY 2018 Plan Year 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)	0.001488428%	0.001695836%	0.0018348%	0.0009388%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 475,919	\$ 640,831	\$ 648,577	\$ 250,766
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	1,256,768	1,640,954	1,625,796	1,288,615
Total	<u>\$ 1,732,687</u>	<u>\$ 2,281,785</u>	<u>\$ 2,274,373</u>	<u>\$ 1,539,381</u>
District's Covered Payroll	\$ 2,172,547	\$ 2,333,448	\$ 2,348,906	\$ 2,126,338
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	21.91%	27.46%	27.61%	11.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	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, 2017 for year 2018, 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 four 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'S CONTRIBUTIONS FOR PENSIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 52,824	\$ 48,782	\$ 53,881	\$ 54,328
Contribution in Relation to the Contractually Required Contribution	(52,824)	(48,782)	(53,881)	(54,328)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 2,362,348	\$ 2,172,547	\$ 2,333,448	\$ 2,348,906
Contributions as a Percentage of Covered Payroll	2.24%	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 of the preceding year.

Note: In accordance with GASB 68, Paragraph 138, only four 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 THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2018

	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.002346023%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 1,020,197
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	1,786,795
Total	\$ 2,806,992
District's Covered Payroll	\$ 2,172,547
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	46.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 18,246
Contribution in Relation to the Contractually Required Contribution	(18,246)
	\$ -0-
Contribution Deficiency (Excess)	-0-
District's Covered Payroll	\$ 2,362,345
Contributions as a Percentage of Covered Payroll	0.77%

Note: GASB Codification, Vol. 2, P50.238 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 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2018

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.

Other Post-Employment Benefit Plan

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

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

REQUIRED TEA SCHEDULES

STERLING CITY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
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	1.040000	0.199800	387,207,695
2018 (School year under audit)	1.040000	0.199800	377,314,647
1000 TOTALS			

The valuation amount for August 31, 2018 (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 \$349,711,984 and the adjusted I&S valuation is \$520,992,187. In addition, all prior year valuation amounts are presented using the same methodology.

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 8,931	\$ -	\$ 1,207	\$ 51	\$ (611)	\$ 7,062
1,191	-	93	17	(182)	899
3,586	-	71	13	(182)	3,320
2,738	-	94	18	(182)	2,444
9,304	-	177	33	(182)	8,912
9,006	-	257	51	36	8,734
41,648	-	27,288	5,252	36	9,144
65,538	-	25,130	4,879	(257)	35,272
48,243	-	11,491	2,234	(739)	33,779
-	4,677,947	3,616,625	1,036,996	-	24,326
<u>\$ 190,185</u>	<u>\$ 4,677,947</u>	<u>\$ 3,682,433</u>	<u>\$ 1,049,544</u>	<u>\$ (2,263)</u>	<u>\$ 133,892</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, 2018

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	\$ 33,500	\$ 39,706	\$ 6,206
5800 State Program Revenues	-	-	611	611
5900 Federal Program Revenues	55,300	58,800	63,409	4,609
5020 Total Revenues	85,300	92,300	103,726	11,426
EXPENDITURES:				
0035 Food Services	153,798	160,798	158,508	2,290
6030 Total Expenditures	153,798	160,798	158,508	2,290
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(68,498)	(68,498)	(54,782)	13,716
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	68,498	68,498	54,782	(13,716)
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

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, 2018

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	\$ 1,177,467	\$ 1,177,467	\$ 1,123,197	\$ (54,270)
5800	State Program Revenues	2,968	2,968	3,070	102
5900	Federal Program Revenues	-	101,100	202,025	100,925
5020	Total Revenues	1,180,435	1,281,535	1,328,292	46,757
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	1,219,545	1,219,545	765,000	454,545
0072	Interest on Long-Term Debt	484,350	585,450	684,650	(99,200)
0073	Bond Issuance Cost and Fees	-	-	1,500	(1,500)
6030	Total Expenditures	1,703,895	1,804,995	1,451,150	353,845
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(523,460)	(523,460)	(122,858)	400,602
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	369,904	369,904
1200	Net Change in Fund Balances	(523,460)	(523,460)	247,046	770,506
0100	Fund Balance - September 1 (Beginning)	5,302,310	5,302,310	5,302,310	-
3000	Fund Balance - August 31 (Ending)	\$ 4,778,850	\$ 4,778,850	\$ 5,549,356	\$ 770,506

COMPLIANCE AND INTERNAL CONTROL SECTION

Reed, McKee & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2018, 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 12, 2018.

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.
December 12, 2018

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

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 2018

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.	475919
SF13	Pension Expense (6147) at fiscal year-end.	