

STERLING CITY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2020

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, 2020

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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) ☒ approved ☐ disapproved for the year ended August 31, 2020 at a meeting of the Board of Trustees of such school district on the 21st day of January, 2021.



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, 2020, 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, 2020, 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.

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 listed in the table of contents on pages 46 through 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 11, 2020 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 11, 2020

**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, 2020. 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 \$4,164,652 as shown on page 7 in Table I. Looking at the changes in the individual categories of assets and liabilities on page 7 of this analysis it can be seen that current assets and other assets increased \$3,563,777 which was mainly in cash and cash equivalents. The cash and cash equivalents increased \$4,246,727 with a decrease in amounts due from the state for the overpayment of the chapter 41 repayment of \$660,910. Total liabilities decreased \$1,689,243. This consisted of two main items. The reduction in debt as shown in the footnotes following was \$1,698,143 while the pension and OPEB liability decreased \$152,113 due to better returns on funds set aside to repay these debts. The net change in the deferred inflows and outflows was to increase the deferred inflows by \$233,772 and decrease the deferred outflows by \$27,808. These accounts are utilized to smooth out the pension expense for the recording of the current year liabilities. The District's net position had increases in the net investment in capital assets of \$867,322. This is due to capital additions and repayment of debt exceeded the current year depreciation. The \$6,727,112 shown as restricted for debt service includes \$4,314,857 of cash in escrow to pay off the Series 2011A bonds as required by agreement.

As shown in Table II on page 8 the District has combined governmental fund revenues of \$12,414,725 consisting of charges for services, operating grants and general revenues. This represents a decrease of \$329,218 as compared to the prior year. The decrease is primarily due to the amounts paid to the district as result of the 313 tax credits being reimbursed from the state. As can be seen on Table II property taxes for the general fund increased \$285,874 due to an increase in assessed values of \$69,368,499. There was an increase in the tax rate from \$1.2098 to \$1.2398. This combined rate showed a larger increase in the debt service rate and a reduction in the M&O rate which explains the larger increase in debt service tax collections than M&O collections. The District had \$8,250,073 of total governmental fund expenses that were offset by \$117,951 of charges for services and \$832,249 of operating grants and contributions. This left net expenses of \$7,299,873 which were funded by general revenues of \$11,464,525. Expenses increased by \$660,018 as compared to the prior year. A detail of the changes in the individual functions can be seen in Table II on page 8.

The fund financial statements had an increase in total governmental fund assets of \$3,563,777 and an increase in liabilities of \$161,013. As noted above the increase in assets is mainly in cash and cash equivalents. Liabilities increased mainly due to the \$163,513 increase in amounts due back to the state for settlement of the recapture for Chapter 41 districts. Unassigned fund balance of \$8,422,125 represents approximately one full year of operations including the anticipated repayment of the state for next year of \$2,500,000. The board of trustees also approved increasing the committed fund balances to a total of \$2,000,000 for future construction. Revenues decreased \$600,044. Again this is due to the decrease in amounts in the current year for the 313 agreement payments which are shown here as foundation funds. Local revenues represented 51% of total revenues while state revenues represented 46% of total revenues. The average daily attendance increased to 313 in 2020 compared to 305 in 2019. Expenses in the general fund decreased \$90,167. The decrease in the amounts payable to the state for recapture and a decrease in facilities maintenance costs was offset by the increase in instructional spending of \$602,372 mainly due to increases in salaries and benefits. Salaries and benefits in the general fund represented 70% of total expenses not including capital outlay and the repayment to the state. This is up slightly from the 67% in the prior year. The Debt Service Fund showed an increase of \$605,346 before the adjustments for the refunding issue. The net decrease of \$194,636 in the other financing uses is primarily due to the District including an additional \$200,000 in the funding of the refunded debt less some return from the bonding costs.

**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 an increase in the general fund balance of \$2,758,784. The final budget was amended in certain functional areas to show a net increase of \$1,491,523. As can be seen with a comparison to actual, the net change in the general fund balance was an increase of \$3,015,214. Actual revenues were \$682,898 more than budgeted while actual expenses were \$1,485,294 less than budgeted. Budget amendments showed a large decrease in the amounts payable back to the state compared to the original budget. Also, there were no functional areas in the budget there were overspent showing that management has done a good job of monitoring the budget compared to actual expenses.

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 increased from \$25,798,339 to \$29,962,991. 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 \$8,416,982 at August 31, 2020.

Table I – Net Position

	Governmental Activities		
	2020	2019	Change
Current and other assets	\$ 17,584,040	\$ 14,020,263	\$ 3,563,777
Capital assets, net	30,069,928	30,896,716	(826,788)
Total assets	<u>47,653,968</u>	<u>44,916,979</u>	<u>2,736,989</u>
Deferred outflows	<u>783,587</u>	<u>811,395</u>	<u>(27,808)</u>
Long term liabilities	16,378,665	18,559,588	(2,180,923)
Other liabilities	<u>1,339,288</u>	<u>847,608</u>	<u>491,680</u>
Total liabilities	<u>17,717,953</u>	<u>19,407,196</u>	<u>(1,689,243)</u>
Deferred inflows	<u>756,611</u>	<u>522,839</u>	<u>233,772</u>
Net position:			
Invested in capital assets, net of related debt	14,818,897	13,951,575	867,322
Restricted for debt service	6,727,112	6,314,843	412,269
Unrestricted	<u>8,416,982</u>	<u>5,531,921</u>	<u>2,885,061</u>
Total net position	<u>\$ 29,962,991</u>	<u>\$ 25,798,339</u>	<u>\$ 4,164,652</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. Increases in each of the individual categories of net position were explained earlier in this discussion in the financial highlights.

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

Table II – Changes in Net Position

	Governmental Activities		
	2020	2019	Change
Revenues			
Program revenues			
Charges for services	\$ 117,951	\$ 131,871	\$ (13,920)
Operating grants and contributions	832,249	720,112	112,137
General revenues			
Property tax revenues- general	4,580,158	4,294,284	285,874
Property tax revenues – debt service	1,249,123	903,296	345,827
State aid- formula grants	5,236,879	6,496,204	(1,259,325)
Investment earnings	137,101	188,890	(51,789)
Miscellaneous	9,471	9,286	185
Special item- Rem Prem on bonds	251,793	0	251,793
Total revenues	<u>\$ 12,414,725</u>	<u>\$ 12,743,943</u>	<u>(329,218)</u>
Expenses			
Instruction	2,788,986	1,971,538	817,448
Instructional resources & media serv	25,366	13,331	12,035
Curriculum & staff development	60,447	45,248	15,199
Instructional leadership	8,584	6,728	1,856
School leadership	372,590	278,796	93,794
Guidance, counseling, & evaluation services	86,640	65,790	20,850
Health services	29,763	21,615	8,148
Student (pupil) transportation	195,809	208,185	(12,376)
Food Services	227,784	187,510	40,274
Extracurricular activities	423,185	380,933	42,252
General administration	478,592	481,910	(3,318)
Facility maintenance & operations	1,718,775	1,588,012	130,763
Security & monitoring services	31,735	36,616	(4,881)
Data processing services	171,109	153,926	17,183
Community services	107,016	103,007	4,009
Debt service – interest	423,436	518,143	(94,707)
Debt service – bond costs	154,870	1,500	153,370
Capital outlay	0	41,150	(41,150)
Contracted inst services between schools	564,290	1,175,191	(610,901)
Payments related to shared service arrangements	216,332	141,333	74,999
Other intergovernmental charges	164,764	169,593	(4,829)
Total expenses	<u>8,250,073</u>	<u>7,590,055</u>	<u>660,018</u>
Change in net assets	4,164,652	5,153,888	(989,236)
Net position-beginning	25,798,339	20,673,243	5,125,096
Prior period adjustment	0	(28,792)	28,792
Net position-ending	<u>\$ 29,962,991</u>	<u>\$ 25,798,339</u>	<u>\$ 4,164,652</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 \$17,152,640 compared to a balance of \$13,726,716 in the prior year. This represents a \$3,425,924 increase in the fund balance. As can be seen on Exhibit C-3 the combined increase consists of an increase in the debt service fund of \$410,710 and an increase of \$3,015,214 in the general fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the District had \$40,157,604 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 \$10,087,676. Current year additions included purchase of land and a new teacherage. Footnote III.E to these financial statements shows more details.

Debt

Changes in debt and the repayment of principal and interest can be seen in detail in Note III.F to the financial statements. There was a new refunding bonds issue in the current year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted a 2021 budget for the General Fund in the amount of \$6,252,095 for the general fund expenditures. The 2021 budget is based on a current tax rate of \$.9664 for operations and maintenance and a debt service tax rate of \$.2398. The district also approved an additional refunding issue in 2021.

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, 2020

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 17,161,458
1220 Property Taxes - Delinquent	76,802
1230 Allowance for Uncollectible Taxes	(21,115)
1240 Due from Other Governments	365,775
1290 Other Receivables, Net	1,120
Capital Assets:	
1510 Land	599,961
1520 Buildings, Net	28,694,227
1530 Furniture and Equipment, Net	775,740
1000 Total Assets	47,653,968
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	458,368
1706 Deferred Outflow Related to TRS OPEB	325,219
1700 Total Deferred Outflows of Resources	783,587
LIABILITIES	
2110 Accounts Payable	66,547
2160 Accrued Wages Payable	142,550
2180 Due to Other Governments	163,513
2200 Accrued Expenses	3,103
Noncurrent Liabilities:	
2501 Due Within One Year	963,575
2502 Due in More Than One Year	14,301,031
2540 Net Pension Liability (District's Share)	806,735
2545 Net OPEB Liability (District's Share)	1,270,899
2000 Total Liabilities	17,717,953
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	206,802
2606 Deferred Inflow Related to TRS OPEB	549,809
2600 Total Deferred Inflows of Resources	756,611
NET POSITION	
3200 Net Investment in Capital Assets	14,818,897
3850 Restricted for Debt Service	6,727,112
3900 Unrestricted	8,416,982
3000 Total Net Position	\$ 29,962,991

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, 2020

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 2,788,986	\$ 9,243	\$ 333,410	\$ (2,446,333)
12 Instructional Resources and Media Services	25,366	-	1,328	(24,038)
13 Curriculum and Instructional Staff Development	60,447	-	25,932	(34,515)
21 Instructional Leadership	8,584	-	2,897	(5,687)
23 School Leadership	372,590	-	37,707	(334,883)
31 Guidance, Counseling, and Evaluation Services	86,640	-	7,462	(79,178)
33 Health Services	29,763	-	4,056	(25,707)
34 Student (Pupil) Transportation	195,809	-	6,775	(189,034)
35 Food Services	227,784	37,910	107,656	(82,218)
36 Extracurricular Activities	423,185	15,530	16,759	(390,896)
41 General Administration	478,592	-	28,993	(449,599)
51 Facilities Maintenance and Operations	1,718,775	41,700	35,359	(1,641,716)
52 Security and Monitoring Services	31,735	-	2,020	(29,715)
53 Data Processing Services	171,109	-	14,743	(156,366)
61 Community Services	107,016	13,568	1,280	(92,168)
72 Debt Service - Interest on Long-Term Debt	423,436	-	205,872	(217,564)
73 Debt Service - Bond Issuance Cost and Fees	154,870	-	-	(154,870)
91 Contracted Instructional Services Between Schools	564,290	-	-	(564,290)
93 Payments Related to Shared Services Arrangements	216,332	-	-	(216,332)
99 Other Intergovernmental Charges	164,764	-	-	(164,764)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 8,250,073	\$ 117,951	\$ 832,249	(7,299,873)

Data Control Codes	General Revenues: Taxes:		
MT	Property Taxes, Levied for General Purposes		4,580,158
DT	Property Taxes, Levied for Debt Service		1,249,123
SF	State Aid - Formula Grants		5,236,879
IE	Investment Earnings		137,101
MI	Miscellaneous Local and Intermediate Revenue		9,471
SI	Special Item-Remaining Premium on Refunded Bonds		251,793
TR	Total General Revenues and Special Items		11,464,525
CN	Change in Net Position		4,164,652
NB	Net Position - Beginning		25,798,339
NE	Net Position - Ending		\$ 29,962,991

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 10,924,816	\$ 6,255,721	\$ (19,079)	\$ 17,161,458
1220 Property Taxes - Delinquent	63,632	13,170	-	76,802
1230 Allowance for Uncollectible Taxes	(18,117)	(2,998)	-	(21,115)
1240 Due from Other Governments	227,276	104,890	33,609	365,775
1260 Due from Other Funds	-	369,904	-	369,904
1290 Other Receivables	1,120	-	-	1,120
1000 Total Assets	<u>\$ 11,198,727</u>	<u>\$ 6,740,687</u>	<u>\$ 14,530</u>	<u>\$ 17,953,944</u>
LIABILITIES				
2110 Accounts Payable	\$ 58,721	\$ -	\$ 7,826	\$ 66,547
2160 Accrued Wages Payable	136,136	-	6,414	142,550
2170 Due to Other Funds	369,904	-	-	369,904
2180 Due to Other Governments	163,513	-	-	163,513
2200 Accrued Expenditures	2,813	-	290	3,103
2000 Total Liabilities	<u>731,087</u>	<u>-</u>	<u>14,530</u>	<u>745,617</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	45,515	10,172	-	55,687
2600 Total Deferred Inflows of Resources	<u>45,515</u>	<u>10,172</u>	<u>-</u>	<u>55,687</u>
FUND BALANCES				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	6,730,515	-	6,730,515
Committed Fund Balance:				
3510 Construction	2,000,000	-	-	2,000,000
3600 Unassigned Fund Balance	8,422,125	-	-	8,422,125
3000 Total Fund Balances	<u>10,422,125</u>	<u>6,730,515</u>	<u>-</u>	<u>17,152,640</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 11,198,727</u>	<u>\$ 6,740,687</u>	<u>\$ 14,530</u>	<u>\$ 17,953,944</u>

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 17,152,640
1 Net capital assets used in governmental activities are reported in the Statement of Net Position.	30,069,928
2 The district's contributions made to TRS and TRS-Care subsequent to the 8/31/19 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.	783,587
3 Bonds payable (including premiums and accrued interest thereon) are reported in the Statement of Net Position.	(15,264,606)
4 The district's proportionate share of the TRS net pension and TRS-Care net OPEB liabilities are reported in the Statement of Net Position.	(2,077,634)
5 The district's proportionate share of the TRS and TRS-Care collective deferred inflows are reported in the Statement of Net Position.	(756,611)
6 Net delinquent property taxes receivable are not deferred in the Statement of Net Position.	55,687
19 Net Position of Governmental Activities	<u><u>\$ 29,962,991</u></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, 2020

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,726,216	\$ 1,344,588	\$ 37,910	\$ 6,108,714
5800 State Program Revenues	4,614,500	887,240	41,501	5,543,241
5900 Federal Program Revenues	-	203,538	190,867	394,405
5020 Total Revenues	9,340,716	2,435,366	270,278	12,046,360
EXPENDITURES:				
Current:				
0011 Instruction	2,511,215	-	110,626	2,621,841
0012 Instructional Resources and Media Services	24,736	-	-	24,736
0013 Curriculum and Instructional Staff Development	35,388	-	23,649	59,037
0021 Instructional Leadership	5,687	-	2,897	8,584
0023 School Leadership	349,325	-	-	349,325
0031 Guidance, Counseling, and Evaluation Services	82,146	-	-	82,146
0033 Health Services	28,980	-	-	28,980
0034 Student (Pupil) Transportation	111,836	-	-	111,836
0035 Food Services	8,983	-	207,920	216,903
0036 Extracurricular Activities	403,960	-	-	403,960
0041 General Administration	459,040	-	-	459,040
0051 Facilities Maintenance and Operations	707,075	-	-	707,075
0052 Security and Monitoring Services	30,318	-	800	31,118
0053 Data Processing Services	163,893	-	-	163,893
0061 Community Services	51,686	-	270	51,956
Debt Service:				
0071 Principal on Long-Term Debt	-	1,320,000	-	1,320,000
0072 Interest on Long-Term Debt	-	509,020	-	509,020
0073 Bond Issuance Cost and Fees	-	1,000	-	1,000
Capital Outlay:				
0081 Facilities Acquisition and Construction	338,214	-	-	338,214
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	564,290	-	-	564,290
0093 Payments to Fiscal Agent/Member Districts of SSA	216,332	-	-	216,332
0099 Other Intergovernmental Charges	164,764	-	-	164,764
6030 Total Expenditures	6,257,868	1,830,020	346,162	8,434,050
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	3,082,848	605,346	(75,884)	3,612,310
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	6,430,000	-	6,430,000
7912 Sale of Real and Personal Property	8,250	-	-	8,250
7915 Transfers In	-	-	75,884	75,884
7916 Premium or Discount on Issuance of Bonds	-	371,609	-	371,609
8911 Transfers Out (Use)	(75,884)	-	-	(75,884)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(6,842,375)	-	(6,842,375)
8949 Other (Uses)	-	(153,870)	-	(153,870)
7080 Total Other Financing Sources (Uses)	(67,634)	(194,636)	75,884	(186,386)
1200 Net Change in Fund Balances	3,015,214	410,710	-	3,425,924
0100 Fund Balance - September 1 (Beginning)	7,406,911	6,319,805	-	13,726,716
3000 Fund Balance - August 31 (Ending)	\$ 10,422,125	\$ 6,730,515	\$ -	\$ 17,152,640

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

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, 2020

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 3,425,924
Capital outlay expenditures are capitalized in the government-wide financial statements.	391,189
Depreciation of capital assets is recognized in the government-wide financial statements.	(1,217,977)
Proceeds from the issuance of bonds (including premiums) are reported as an increase in liabilities in the government-wide financial statements.	(6,801,609)
Bond repayments are reported as a decrease in liabilities in the government-wide financial statements.	8,055,000
Premiums received on the original issuance of bonds payable are reported in the government-wide financial statements. The current year amortization is recognized in the Statement of Activities.	440,719
Accrued interest on bonds is reported in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.	4,033
TRS pension and TRS-Care OPEB expense as reported in the Statement of Activities and determined under the provisions of GASB 68 and 75 (which includes the State of Texas' proportionate share of the district's expense) was \$240,949 greater than the amount reported in the fund financial statements. The State of Texas' proportionate share of the district's expense is recorded as a revenue and expense in the Statement of Activities and was \$131,482 greater than the statutory amount contributed and reported as on-behalf revenue and expenditure in the fund financial statements.	(109,467)
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.	(23,160)
Change in Net Position of Governmental Activities	<u><u>\$ 4,164,652</u></u>

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, 2020

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	\$ 4,443,907	\$ 4,443,907	\$ 4,726,216	\$ 282,309
5800 State Program Revenues	4,566,972	4,213,911	4,614,500	400,589
5020 Total Revenues	9,010,879	8,657,818	9,340,716	682,898
EXPENDITURES:				
Current:				
0011 Instruction	2,229,853	2,513,754	2,511,215	2,539
0012 Instructional Resources and Media Services	17,549	30,549	24,736	5,813
0013 Curriculum and Instructional Staff Development	43,906	54,906	35,388	19,518
0021 Instructional Leadership	5,377	10,377	5,687	4,690
0023 School Leadership	307,705	352,905	349,325	3,580
0031 Guidance, Counseling, and Evaluation Services	72,831	85,631	82,146	3,485
0033 Health Services	28,155	32,655	28,980	3,675
0034 Student (Pupil) Transportation	195,172	116,972	111,836	5,136
0035 Food Services	16,011	14,011	8,983	5,028
0036 Extracurricular Activities	487,197	407,197	403,960	3,237
0041 General Administration	468,696	478,896	459,040	19,856
0051 Facilities Maintenance and Operations	704,140	720,500	707,075	13,425
0052 Security and Monitoring Services	43,064	36,064	30,318	5,746
0053 Data Processing Services	168,915	169,515	163,893	5,622
0061 Community Services	62,424	57,424	51,686	5,738
Capital Outlay:				
0081 Facilities Acquisition and Construction	280,000	344,000	338,214	5,786
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	650,000	1,236,439	564,290	672,149
0093 Payments to Fiscal Agent/Member Districts of SSA	213,469	218,469	216,332	2,137
0099 Other Intergovernmental Charges	180,000	180,000	164,764	15,236
6030 Total Expenditures	6,174,464	7,060,264	6,257,868	802,396
1100 Excess of Revenues Over Expenditures	2,836,415	1,597,554	3,082,848	1,485,294
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	8,250	8,250
8911 Transfers Out (Use)	(77,631)	(106,031)	(75,884)	30,147
7080 Total Other Financing Sources (Uses)	(77,631)	(106,031)	(67,634)	38,397
1200 Net Change in Fund Balances	2,758,784	1,491,523	3,015,214	1,523,691
0100 Fund Balance - September 1 (Beginning)	7,406,911	7,406,911	7,406,911	-
3000 Fund Balance - August 31 (Ending)	\$ 10,165,695	\$ 8,898,434	\$ 10,422,125	\$ 1,523,691

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, 2020

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 106,712
Total Assets	<u>\$ 106,712</u>
LIABILITIES	
Due to Student Groups	\$ 106,712
Total Liabilities	<u>\$ 106,712</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, 2020

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") 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. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." 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, 2020

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, 2020

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. 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.

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, 2020

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.
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, 2020, 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. 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

E. Other Accounting Policies - Continued

6. 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 by a majority vote in a scheduled meeting. 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 by a majority vote in a scheduled meeting.

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 \$2,000,000 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.

7. 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.
8. 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

E. Other Accounting Policies - Continued

9. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. One type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category is uncollected property taxes which are reported on the balance sheet for governmental funds. The other items reported in this category are discussed in the pension footnote.
10. The preparation of financial statements in conformity with GAAP requires the use of management estimates.
11. 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

A. Budgetary Data

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.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

II. Stewardship, Compliance, and Accountability – Continued

B. Excess of Expenditures over Appropriations

Debt Service Fund:

Interest on Long-Term Debt	\$197,220
Bond Issuance Cost and Fees	1,000

Both of these overages were due to adjustment required during the audit for the refinancing,

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.

Foreign Currency Risk – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

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 participants 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, 2020

A. Cash, Cash Equivalents and Investments- Continued

As of August 31, 2020, 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>Rating</u>
Money Market and FDIC					
Insured Accounts	\$ 7,528,613	43.6%	\$ 7,528,613	0	N/A
Certificates of Deposit	411,314	2.4%	411,314	0	N/A
QSBC Cash Account	4,314,857	25.0%	0	4,314,857	N/A
Investment Pools:					
TexStar	5,013,386	29.0%	5,013,386	0	AAA
Total Cash and Cash Equivalents	<u>\$17,268,170</u>		<u>\$12,953,313</u>	<u>*\$4,314,857</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, 2020

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;

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 with out specific statutory authority from the Texas Legislature.

D Interfund Transfers and Balances

Interfund transfers at August 31, 2020 consisted of the following:

Transfers to Nonmajor Governmental Funds from:

General Fund to Cafeteria Fund	<u>\$ 75,884</u>	Transfer to subsidize operations
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Interfund balances at August 31, 2020 consisted of the following:

Debt Service due from General Fund	<u>\$ 369,904</u>	Transfer of 313 agreement amount
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STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

E. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2020, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balances</u>
Governmental Activities:				
Land	\$ 526,747	\$ 73,214	\$ 0	\$ 599,961
Buildings and Improvements	37,381,321	310,637	0	37,691,958
Furniture and Equipment	980,716	7,338	0	988,054
Vehicles	919,575	0	(41,944)	877,631
Total Capital Assets	<u>39,808,359</u>	<u>391,189</u>	<u>(41,944)</u>	<u>40,157,604</u>
Less Accumulated Depreciation:				
Buildings and Improvements	7,927,942	1,069,789	0	8,997,731
Furniture and Equipment	563,601	67,375	0	630,976
Vehicles	420,100	80,813	(41,944)	458,969
Total Accumulated Depreciation	<u>8,911,643</u>	<u>1,217,977</u>	<u>(41,944)</u>	<u>10,087,676</u>
Governmental Capital Assets, Net	<u>\$ 30,896,716</u>	<u>\$(826,788)</u>	<u>\$ 0</u>	<u>\$30,069,928</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 35,401
Student (Pupil) Transportation	80,813
Food Services	1,569
Extracurricular Activities	15,337
Facilities Maintenance and Operations	1,030,278
Community Services	54,579
Totals	<u>\$ 1,217,977</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, 2020

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 with interest rates ranging from 2% to 4%. These bonds were fully repaid during the current year - see Unlimited Tax Refunding Bonds, Series 2019 below.

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 15, 2021 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

Unlimited Tax Refunding Bonds, Series 2019

These bonds were issued November 20, 2019 for a face amount of \$6,430,000 to refund the remaining \$6,735,000 of the Series 2015 bonds which were scheduled to mature on or after February 15, 2021. Bonds maturing 2020 through 2024 bear interest at 4% and the remaining bonds maturing 2025 through 2028 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, 2025 are subject to redemption at the option of the District prior to maturity, in whole or in part, on February 15, 2024 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date.

The total cash flow of this issue over the life of the bonds is \$7,583,363 while the remaining cash flow on the refunded Series 2015 bonds was \$8,440,100, a net decrease of \$856,737. The economic gain is \$529,750 which represents the difference between the present values of the above cash flows at a yield of 2.475%.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

F. Bonds Payable - Continued

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	7,275,000	0	(7,275,000)	0	
Net Premium	320,996	0	(320,996)	0	0
Series 2016 Bonds	4,190,000	0	(290,000)	3,900,000	300,000
Net Premium	159,145	0	(43,980)	115,165	
Series 2019 Bonds	0	6,430,000	(490,000)	5,940,000	650,000
Net Premium	<u>0</u>	<u>371,609</u>	<u>(75,743)</u>	<u>295,866</u>	
Totals	<u>\$ 16,945,141</u>	<u>\$ 6,801,609</u>	<u>\$ (8,495,719)</u>	15,251,031	<u>\$ 950,000</u>
Accrued Interest Payable				<u>13,575</u>	
Total Noncurrent Liabilities				15,264,606	
Due Within One Year (including accrued interest payable)				<u>(963,575)</u>	
Due In More Than One Year				<u>\$ 14,301,031</u>	

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, \$3,900,000 of Series 2016 Bonds, and \$5,940,000 of Series 2019 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.

<u>Year End August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Subsidy</u>	<u>Escrow Deposit</u>	<u>Cash Flow</u>
2021	\$ 950,000	\$ 523,100	\$ 1,473,100	\$ (203,538)	\$ 454,545	\$ 1,724,107
2022	5,990,000	377,725	6,367,725	(101,769)	(4,545,454)	1,720,502
2023	1,490,000	225,475	1,715,475	0	0	1,715,475
2024	1,540,000	172,850	1,712,850	0	0	1,712,850
2025	1,595,000	122,175	1,717,175	0	0	1,717,175
2026	1,640,000	73,650	1,713,650	0	0	1,713,650
2027	805,000	36,975	841,975	0	0	841,975
2028	<u>830,000</u>	<u>12,450</u>	<u>842,450</u>	<u>0</u>	<u>0</u>	<u>842,450</u>
Totals	<u>\$ 14,840,000</u>	<u>\$ 1,544,400</u>	<u>\$ 16,384,400</u>	<u>\$ (305,307)</u>	<u>\$ (4,090,909)</u>	<u>\$ 11,988,184</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2020

G. Fund Balances / Net Position

Fund balances consist of restricted balances which are set aside for retirement of debt of \$6,730,515. Committed fund balance consists of the following amounts which were approved by the Board of Trustees.

Building Construction	<u>\$ 2,000,000</u>
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The remaining fund balance of \$8,422,125 is unassigned and available for operations of the next year.

Net position of the District totaled \$29,962,991 and consisted of the following amounts:

Net investment in Capital Assets \$14,818,897.

Restricted for Debt Service \$6,727,112.

Unrestricted of \$8,416,982.

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). 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.

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.

<u>Net Pension Liability</u>	<u>Total</u>	
	Total Pension Liability	\$209,961,325,288
	Less: Plan Fiduciary Net Position	<u>157,978,199,075</u>
	Net Pension Liability	<u>\$ 51,983,126,213</u>
	Net Position as a percentage of Total Pension Liability	75.24%

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 benefits are established or amended under the authority of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. The Board of Trustees does not have the authority to establish or amend benefits. State laws requires the plan to be actuarially sound in order for the Legislature to consider a benefit enhancement, such as supplemental payments to the retirees. In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (SB12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension actuarially sound. These increases immediately made the pension fund actuarially sound and the legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever was less.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

H. Defined Benefit Pension Plan – Continued

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal year 2014 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. SB12 in the 86th Legislature set higher contribution rates for fiscal year 2020 and fiscal year 2021. Beginning September 1, 2019, all employers are required to pay the Public Education Employer contribution of 1.5%. This “surcharge” was previously only charged to employers not participating in social security. Contribution Rates can be found in the TRS 2019 CAFR, Note 11, on page 76.

	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.5%
Current fiscal year District contributions		\$ 90,942
Current fiscal year Member contributions		\$ 272,845
Measurement year NECE On-Behalf contributions		\$ 141,273

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

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

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

H. Defined Benefit Pension Plan – Continued

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- Employers must contribute 1.5% of the member's salary

Actuarial Assumptions

Roll Forward - A change was made in the measurement date of the total pension liability for the 2019 measurement year. The actuarial valuation was performed as of August 31, 2018. Updated procedures were used to roll forward the total pension liability to August 31, 2019.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2018 and were adopted in July 2018.

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 2018 TRS of Texas Healthy Pensioner Mortality Tables. The following table discloses the assumptions that were applied to this measurement period.

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method Value	Market Value
Single Discount Rate	7.25%
Long-term expected Rate	7.25%
Municipal Bond Rate as of 8-31-2019	2.63% - Source for the rate is the Fixed Income Market Data/Yield Curve/Data 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."
Last year ending August 31 in	
Projection Period (100 years)	2116
Inflation	2.30%
Salary Increases including Inflation	3.05% to 9.05% including inflation
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the TRS actuarial valuation report dated November 9, 2018.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

H. Defined Benefit Pension Plan – Continued

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from active members, contributing employers and the non-employer contributing entity are made at the statutorily required rates set by the Legislature during the 2019 legislative session. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current plan members.

Asset Class	FY 2019 Allocation*	New Target Allocation **	Long-Term Expected Geometric Real Rate of Return***
Global Equity			
U.S.	18.00%	18.00%	6.40%
Non-U.S. Developed	13.00	13.00	6.30
Emerging Markets	9.00	9.00	7.30
Directional Hedge Funds	4.00	-----	-----
Private Equity	13.00	14.00	8.40
Stable Value			
U.S. Treasuries****	11.00	16.00	3.10
Absolute Return	----	-----	-----
Hedge Funds (Stable Value)	4.00	5.00	4.50
Real Return			
Global Inflation Linked Bonds*****	3.00	-----	-----
Real Estate	14.00	15.00	8.50
Energy and Natural Resources	5.00	6.00	7.30
Commodities	----	-----	-----
Risk Parity			
Risk Parity	5.00	8.00	5.8%/6.5% *****
Asset Allocation Leverage Cash	1.00	2.00	2.50
Asset Allocation Leverage	-----	(6.00)	2.70
Expected Return		7.23%	

* FY 2019 Target Allocations are based on the Strategic Asset Allocation Dated 10/1/2018

** New target allocation based on the Strategic Asset Allocation dated 10/1/2019

***10 year annualized geometric nominal return include the real rate of return and inflation of 2.1%

****New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds.

*****5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

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 (7.25%) in measuring the 2019 Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Proportionate share of the Net Pension Liability	\$1,240,070	\$ 806,735	\$ 455,651

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

H. Defined Benefit Pension Plan – Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2020, the District reported a liability of \$806,735 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	\$ 806,735
State's proportionate share that is associated with the District	<u>2,098,246</u>
Total	<u>\$ 2,904,981</u>

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018 rolled forward to August 31, 2019. 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, 2018 through August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0015519180%. which was a decrease of 0.0000997644% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation – Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions;

The total pension liability as of August 31, 2019 was developed using a roll-forward method from the August 31, 2018 valuation.

The single discount rate as of August 31, 2018 was a blended rate of 6.3907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019

With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

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, 2020, the District recognized pension expense of \$497,569. This expense represents the District's proportionate share of GASB 68 expense as well as the District's proportionate share of the State's on-behalf payments of \$329,605. The State's proportionate share to the plan is recognized as revenue and expense since it is an on-behalf amount.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

H. Defined Benefit Pension Plan – Continued

At August 31, 2020 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	\$ 3,389	\$ 28,011
Changes in actuarial assumptions	250,289	103,431
Differences between projected and actual investment earnings	8,100	0
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>105,648</u>	<u>75,360</u>
Totals as of measurement date	367,426	206,802
Contributions paid to TRS subsequent to the measurement date	<u>90,942</u>	<u>0</u>
Total as of fiscal year end	<u>\$ 458,368</u>	<u>\$ 206,802</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,	Pension Expense <u>Amount</u>
2021	\$ 49,434
2022	\$ 38,549
2023	\$ 33,725
2024	\$ 35,573
2025	\$ 12,924
Thereafter	\$ (9,581)

The net pension liability of \$806,735 is shown as a non-current liability on the statement of position and the following table shows the increases and decreases for the year.

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Net Pension Liability	<u>\$ 909,126</u>	<u>\$(48,072)</u>	<u>\$ 54,319</u>	<u>\$ 806,735</u>

I. Unavailable Revenue

Unavailable revenue at year end consisted of the following:

	General <u>Fund</u>	Other <u>Funds</u>	<u>Total</u>
Property Taxes	<u>\$ 45,515</u>	<u>\$ 10,172</u>	<u>\$ 55,687</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

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.

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, 2018 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 48,583,247,239
Less: plan fiduciary net position	<u>1,292,022,349</u>
Net OPEB Liability	<u>\$ 47,291,224,890</u>
Net position as a percentage of total Liability	2.66%

Benefits Provided

TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension system. Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86th legislature also passed SB 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

The premium rates for retirees are presented in the following table:

TRS-Care Monthly Premium rates

	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

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 1.25% 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 which is 0.75% of each active employee's pay for fiscal year 2018. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Current fiscal year District contributions		\$ 25,152
Current fiscal year Member contributions		\$ 21,239
Measurement year NECE On-Behalf contributions		\$ 25,342

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 \$73.6 million in fiscal year 2019

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2020, 2019 and 2018 were \$12,296, \$9,145 and \$6,798, respectively.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

J. Defined Other Post-Employment Benefit Plans- Continued

Actuarial Assumptions

The total OPEB liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS Pension actuarial valuation that was rolled forward to August 31, 2019:

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, 2018 Rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63% as of August 31, 2019.
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.
Projected Salary Increases	3.05% to 9.05%
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

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 annually by 2.50 percent.
Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
There were 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

J. Defined Other Post-Employment Benefit Plans – Continued

Discount Rate

A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06% 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

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.

	<u>1% Decrease in Discount Rate (1.63%)</u>	<u>Current Single Discount Rate (2.63%)</u>	<u>1% Increase in Discount Rate (3.63%)</u>
District’s proportionate share of net OPEB Liability	\$ 1,534,381	\$ 1,270,899	\$ 1,064,774

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:

	<u>1% Decrease</u>	<u>Current Healthcare cost Trend Rate</u>	<u>1% Increase</u>
District’s proportionate share of net OPEB liability	\$ 1,036,754	\$ 1,270,899	\$ 1,584,543

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

At August 31, 2020, the District reported a liability of \$1,270,899 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	\$ 1,270,899
State’s proportionate share that is associated with the District	<u>1,688,739</u>
Total	<u>\$ 2,959,638</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

J. Defined Other Post-Employment Benefit Plans - Continued

The net OPEB liability was measured as of August 31, 2019 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, 2018 thru August 31, 2019.

At August 31, 2019 the District's proportion of the collective net OPEB liability was 0.0026873858%, which was a decrease of .0000424901% from the August 31, 2018 proportion share.

Changes in Actuarial Assumptions 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.

The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the Total OPEB liability (TOL).

The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.

The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There were no lapse assumptions in the prior valuation. These changes decreased the TOL.

The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.

Changes in Benefit Terms: There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, the District recognized OPEB expense of \$ 102,105. This expense represents the District's proportionate share of GASB 75 expense as well as the District's proportionate share of the State's on-behalf payment of \$44,508. The State's proportionate share to the plan is recognized as revenue and expense since it is an on-behalf amount.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

J. Defined Other Post-Employment Benefit Plans- Continued

At August 31, 2020, 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:

	Deferred Outflow Of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 62,348	\$ 207,969
Changes in actuarial assumptions	70,588	341,840
Differences between projected and actual investment Earnings	137	0
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	166,994	0
Total as of measurement date	\$ 300,067	\$ 549,809
Contributions paid to TRS subsequent to the measurement date	25,152	0
Total as of fiscal year end	<u>\$ 325,219</u>	<u>\$ 549,809</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>
2021	\$ (46,811)
2022	(46,811)
2023	(46,855)
2024	(46,881)
2025	(46,874)
Thereafter	(15,510)

The net OPEB liability of \$1,270,899 is shown as a non-current liability on the Statement of Position and the following table shows the increases and decreases for the year.

	Beginning Balance	Additions	Retirements	Ending Balance
Net OPEB Liability	<u>\$ 1,320,621</u>	<u>\$ (30,649)</u>	<u>\$ 19,073</u>	<u>\$ 1,270,899</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

K. 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, 2020, 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	\$ 214,407	\$ 12,869	\$ 227,276
Special Rev Fund	33,609	0	33,609
Debt Service	101,769	3,121	104,890
Total	<u>\$ 349,785</u>	<u>\$ 15,990</u>	<u>\$ 365,775</u>

L. 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>Other Fund</u>	<u>Total</u>
Property Taxes	\$ 4,600,844	\$ 1,251,597	\$ 0	\$ 5,852,441
Investment Income	44,110	92,991	0	137,101
Food Sales	0	0	37,910	37,910
Co-Curricular Activities	13,568	0	0	13,568
Laptop student insurance	9,243	0	0	9,243
Rentals	41,700	0	0	41,700
Pool operations	15,530	0	0	15,530
Other	1,221	0	0	1,221
Totals	<u>\$ 4,726,216</u>	<u>\$ 1,344,588</u>	<u>\$ 37,910</u>	<u>\$ 6,108,714</u>

M. 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, 2020 was \$7,104 and was recorded as an insurance expenditure.

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

Unpaid claims as of September 1, 2019	\$ 12,575
Incurred claims (including IBNRs)	2,535
Payments	<u>(3,067)</u>
Unpaid claims as of August 31, 2020	<u>\$ 12,043</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

N. 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	\$ 77
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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 \$183,468 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 \$32,864 to the shared serviced arrangement. These expenses are also included in function 93.

O. 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.

P. 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 received \$104,154.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

Q. Tax Abatements

The Sterling City Independent School District board of trustees approved several agreements with various eligible entities listed below for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to 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 entities below qualified for a tax limitation agreement under Texas Tax code section 313.024(b)(5).

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 Texas Priority Projects.

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 agreements themselves.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2020

Q. 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	\$ 369,018,330	\$ 0	\$ 0	\$3,579,478	\$ 0	\$ 1,785,754	\$1,785,754
150	68,290,740	0	0	662,240	0	184,241	184,241
1115	27,341,550	30,000,000	265,213	0	0	0	265,213

R. Subsequent Events

After the fiscal year ended August 31, 2020 the Board of Trustees approved an additional bond refunding issue.

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, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Pension Liability (Asset)	0.001551918%	0.001651682%	0.001488428%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 806,735	\$ 909,126	\$ 475,919
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	2,098,246	2,181,292	1,256,768
Total	<u>\$ 2,904,981</u>	<u>\$ 3,090,418</u>	<u>\$ 1,732,687</u>
District's Covered Payroll	\$ 2,438,086	\$ 2,362,348	\$ 2,172,547
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	33.09%	38.48%	21.91%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.24%	73.74%	82.17%

Note: GASB Codification, Vol. 2, P20.183 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, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

<div> <div>FY 2017</div> <div>Plan Year 2016</div> </div> <div> <div>FY 2016</div> <div>Plan Year 2015</div> </div> <div> <div>FY 2015</div> <div>Plan Year 2014</div> </div>		
0.001695836%	0.0018348%	0.0009388%
\$ 640,831	\$ 648,577	\$ 250,766
1,640,954	1,625,796	1,288,615
\$ 2,281,785	\$ 2,274,373	\$ 1,539,381
\$ 2,333,448	\$ 2,348,906	\$ 2,126,338
27.46%	27.61%	11.79%
78.00%	78.43%	83.25%

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 90,942	\$ 53,919	\$ 52,824
Contribution in Relation to the Contractually Required Contribution	90,942	53,919	52,824
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,267,600	\$ 2,438,086	\$ 2,362,348
Contributions as a Percentage of Covered Payroll	2.78%	2.21%	2.24%

Note: GASB Codification, Vol. 2, P20.183 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.

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

<hr/>			
2017	2016	2015	
<hr/>			
\$ 48,782	\$ 53,881	\$ 54,328	
48,782	53,881	54,328	
<hr/>			
\$ -	\$ -	\$ -	
<hr/>			
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\$ 2,172,547	\$ 2,333,448	\$ 2,348,906	
2.25%	2.31%	2.31%	

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, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.002687386%	0.002644896%	0.002346023%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 1,270,899	\$ 1,320,621	\$ 1,020,197
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	1,688,739	2,103,093	1,786,795
Total	<u>\$ 2,959,638</u>	<u>\$ 3,423,714</u>	<u>\$ 2,806,992</u>
District's Covered Payroll	\$ 2,438,086	\$ 2,362,348	\$ 2,172,547
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	52.13%	55.90%	46.96%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.66%	1.57%	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 2020 are for the measurement date of August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years 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 2020

	2020	2019	2018
Contractually Required Contribution	\$ 25,152	\$ 18,958	\$ 18,246
Contribution in Relation to the Contractually Required Contribution	25,152	18,958	18,246
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,267,600	\$ 2,438,086	\$ 2,362,345
Contributions as a Percentage of Covered Payroll	0.77%	0.78%	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, 2020

Notes to Schedules for the TRS Pension

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 in the actuarial assumptions used in the determination of the total pension liability during the measurement period.

The single discount rate was a blended rate of 6.907% as of August 31, 2018 and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.

With the enactment of SB3 by the 2019 Texas legislature, an assumption has been made about how this would impact future salaries.

Notes to Schedules for the TRS OPEB Plan

Changes of benefit terms

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

Changes of assumptions

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

- The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the TOL.
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes lowered the TOL.

REQUIRED TEA SCHEDULES

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2020

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2011 and prior years	Various	Various	\$ Various
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	1.040000	0.199800	377,314,647
2019	1.040000	0.199800	413,226,327
2020 (School year under audit)	0.970000	0.239800	482,594,826
1000 TOTALS			

The valuation amount for August 31, 2020 (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 has entered into some Texas Tax Code Chapter 313 agreements. The adjusted M&O valuation is \$473,012,042 and the adjusted I&S valuation is \$521,357,544. In addition, all prior year valuation amounts are presented using the same methodology

(10) Beginning Balance 9/1/2019	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2020
\$ 10,364	\$ -	\$ 463	\$ 46	\$ (2,195)	\$ 7,660
1,689	-	101	19	-	1,569
7,783	-	251	49	(5,087)	2,396
7,935	-	325	63	(5,538)	2,009
8,023	-	266	51	(5,343)	2,363
12,445	-	363	69	(9,240)	2,773
21,584	-	648	125	(7,445)	13,366
14,539	-	3,968	767	(5,492)	4,312
27,425	-	15,780	3,049	(580)	8,016
-	5,838,432	4,562,312	1,243,782	-	32,338
<u>\$ 111,787</u>	<u>\$ 5,838,432</u>	<u>\$ 4,584,477</u>	<u>\$ 1,248,020</u>	<u>\$ (40,920)</u>	<u>\$ 76,802</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, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 30,000	\$ 30,000	\$ 37,910	\$ 7,910
5800 State Program Revenues	500	500	688	188
5900 Federal Program Revenues	53,850	73,850	93,438	19,588
5020 Total Revenues	84,350	104,350	132,036	27,686
EXPENDITURES:				
Current:				
0035 Food Services	161,981	210,381	207,920	2,461
6030 Total Expenditures	161,981	210,381	207,920	2,461
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(77,631)	(106,031)	(75,884)	30,147
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	77,631	106,031	75,884	(30,147)
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, 2020

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	\$ 1,087,743	\$ 1,242,743	\$ 1,344,588	\$ 101,845
5800 State Program Revenues	1,048,667	1,048,667	887,240	(161,427)
5900 Federal Program Revenues	-	-	203,538	203,538
5020 Total Revenues	2,136,410	2,291,410	2,435,366	143,956
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	1,774,546	2,079,546	1,320,000	759,546
0072 Interest on Long-Term Debt	311,800	311,800	509,020	(197,220)
0073 Bond Issuance Cost and Fees	-	-	1,000	(1,000)
6030 Total Expenditures	2,086,346	2,391,346	1,830,020	561,326
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	50,064	(99,936)	605,346	705,282
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	6,430,000	6,430,000
7916 Premium or Discount on Issuance of Bonds	-	-	371,609	371,609
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(6,842,375)	(6,842,375)
8949 Other (Uses)	-	-	(153,870)	(153,870)
7080 Total Other Financing Sources (Uses)	-	-	(194,636)	(194,636)
1200 Net Change in Fund Balances	50,064	(99,936)	410,710	510,646
0100 Fund Balance - September 1 (Beginning)	6,319,805	6,319,805	6,319,805	-
3000 Fund Balance - August 31 (Ending)	\$ 6,369,869	\$ 6,219,869	\$ 6,730,515	\$ 510,646

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, 2020, 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 11, 2020.

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 11, 2020

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2020

I. Summary of the Auditor's Results:

- A. The auditor's report expresses an unmodified 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 2020

SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
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?	No
SF3	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? (If there was a warrant hold not cleared in 30 days, then not timely.)	Yes
SF4	Was the school district issued a warrant hold? (Yes even if cleared within 30 days.)	No
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 post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules in effect at the fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end.	0