

STERLING CITY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2023

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, 2023

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
CERTIFICATE OF BOARD	1	
FINANCIAL SECTION		
Independent Auditor's Report	2-4	
Management's Discussion and Analysis	5-10	
<u>Basic Financial Statements</u>		
Government Wide Financial Statements		
Statement of Net Position	11	A-1
Statement of Activities	12	B-1
Governmental Fund Financial Statements		
Balance Sheet	13	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	15	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	16	C-4
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General Fund	17	C-5
Fiduciary Funds - Statement of Fiduciary Net Position	18	D-1
Statement of Changes in Fiduciary Net Position	19	D-2
Notes to the Financial Statements	20-46	
<u>Required Supplementary Information</u>		
Schedule of District's Proportionate Share of the Net Pension Liability	47-48	E-1
Schedule of District Contributions For Pensions	49-50	E-2
Schedule of District's Proportionate Share of the OPEB Liability	51-52	E-3
Schedule of District Contributions for OPEB	53-54	E-4
Notes to Required Supplementary Information	55	
<u>Required TEA Schedules</u>		
Schedule of Delinquent Taxes Receivable	56-57	F-1
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Child Nutrition Program	58	F-2
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Debt Service Fund	59	F-3
Use of Funds Report – Select State Allotment Programs	60	F-4
COMPLIANCE AND INTERNAL CONTROL SECTION		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	61-62	
Schedule of Findings and Responses	63	

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, 2023 at a meeting of the Board of Trustees of such school district on the 25 day of January, 2024.



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

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise Sterling City Independent School District's basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 Audit Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sterling City Independent School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note III G to the financial statements, the District adopted new accounting pronouncement, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, during the current year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sterling City Independent School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sterling City Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sterling City Independent School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 5-10) and the Required Supplementary Information (pages 47-55) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Sterling City Independent School District's basic financial statements. The Required TEA Schedules (pages 56-60) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 January 25, 2024 on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sterling City Independent School District's 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.
January 25, 2024

**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, 2023. 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 \$704,115 as shown on page 8 in Table I. Looking at the changes in the individual categories of assets and liabilities on page 8 of this analysis it can be seen that current assets and other assets decreased \$1,433,366 which was mainly in cash and cash equivalents. The decrease in cash and cash equivalents is attributable to \$572,149 of capital additions and the cash loss in operations. The liability for the pension and OPEB increased \$891,063 while the District decreased long term debt with the regular bond payments of \$2,150,000 resulting in the overall decrease in long term liabilities. Capital assets, net decreased \$629,259 due to depreciation exceeding the current year additions. The deferred inflows and outflows are used to even out the effect on pension expense each year. The net effect in the current year was to increase net outflows by \$960,341 and increase deferred inflows of \$91,834. The details of these inflows and outflows is described in the following footnotes.

As shown in Table II on page 9 the District has combined governmental fund revenues of \$12,200,487 consisting of charges for services, operating grants and general revenues. This represents an increase of \$1,667,439 as compared to the prior year. The increase consists of two things. Property tax revenue increased \$1,059,994 and an increase in investment income of \$486,544. Property taxes were up due to the increase in assessed values of \$127,426,665. There was a slight decrease in the tax rate from \$1.2032 to \$1.1545. The increase in investment income is really just due to the increase interest rates for these investments. The District had \$11,496,372 of total governmental fund expenses that were offset by \$135,899 of charges for services and \$443,188 of operating grants and contributions. This left net expenses of \$10,917,285 which were funded by general revenues of \$11,621,400. Expenses increased by \$963,159 as compared to the prior year. A detail of the changes in the individual functions can be seen in Table II on page 9.

The fund financial statements had a decrease in total governmental fund assets of \$1,154,039 and a decrease in liabilities of \$250,303. As noted above the decrease in assets in mainly in cash and cash equivalents from a net loss in operations. Liabilities decreased mainly due to a repayment to the debt service fund of \$369,904 from the general fund. Unassigned fund balance of \$7,052,303 represents approximately eight months of operations assuming the same amount of expenses for next year. The board of trustees also approved the committed fund balances to a total of \$2,000,000 for future construction. Governmental revenues increased \$1,548,894 compared to the prior year. Local revenues represented 93% of total revenues while state and federal revenues represented 7% of total revenues. The average daily attendance increased to 319 in 2023 compared to 316 in 2022. Expenses in the general fund increased \$1,343,577 mainly due to the increase in recapture paid by the District of \$615,992. Salaries and benefits in the general fund represented 65% of total expenses not including capital outlay and the repayment to the state. This is up slightly from the 62% in the prior year. The Debt Service Fund showed an increase in fund balance of \$106,689 as property taxes collected for debt repayment were more than the required annual amount paid in 2023.

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

Finally, it should be noted as shown on Exhibit C-5 that the District's original budget for the current year anticipated a decrease in the general fund balance of \$1,183,214. The final budget was amended in certain functional areas to show a net decrease of \$1,745,521. As can be seen with a comparison to actual, the net change in the general fund balance was a decrease of \$1,006,717. Actual revenues were \$657,435 more than budgeted while actual expenses were \$5,739 more than budgeted. Functional areas over spent were due to an audit adjustment to record an additional health care assessment which is described in more detail on footnote III L.

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 and Statement of Changes in Fiduciary Fund 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 \$31,105,688 to \$31,809,638. 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 \$6,944,158 at August 31, 2023.

Table I – Net Position

	Governmental Activities		
	2023	2022	Change
Current and other assets	\$ 12,642,714	\$ 13,446,821	\$ (804,107)
Capital assets, net	<u>27,273,973</u>	<u>27,903,232</u>	<u>(629,259)</u>
Total assets	<u>39,916,687</u>	<u>41,350,053</u>	<u>(1,433,366)</u>
Deferred outflows	<u>2,075,502</u>	<u>1,115,161</u>	<u>960,341</u>
Long term liabilities	6,427,740	7,838,675	(1,410,935)
Other liabilities	<u>1,920,945</u>	<u>1,778,984</u>	<u>141,961</u>
Total liabilities	<u>8,348,685</u>	<u>9,617,659</u>	<u>(1,268,974)</u>
Deferred inflows	<u>1,833,866</u>	<u>1,742,032</u>	<u>91,834</u>
Net position:			
Invested in capital assets, net of related debt	21,794,896	20,167,157	1,627,739
Restricted for debt service	3,070,584	2,961,987	108,597
Unrestricted	<u>6,944,158</u>	<u>7,976,379</u>	<u>(1,032,221)</u>
Total net position	<u>\$ 31,809,638</u>	<u>\$ 31,105,523</u>	<u>\$ 704,115</u>

As can be seen above total assets decrease \$1,433,366 as compared to the prior year. Most of this is due to the decrease in cash and capital asset additions. The Deferred Outflows and Inflows are described in more detail in the following notes and are a product of recording the Net Pension and Net OPEB liability of \$2,393,663 included in long term liabilities. The net position as noted above increased overall by \$704,115. This consisted of an increase in capital assets, net of related debt as there were more additions of capital assets and repayment of debt than the related depreciation. This was offset by the decrease in unrestricted net position of \$1,032,221.

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

Table II – Changes in Net Position

	Governmental Activities		
	2023	2022	Change
Revenues			
Program revenues			
Charges for services	\$ 135,899	\$ 125,163	\$ 10,736
Operating grants and contributions	443,188	417,366	25,822
General revenues			
Property tax revenues- general	8,380,290	7,583,920	796,370
Property tax revenues – debt service	2,348,201	2,084,577	263,624
State aid- formula grants	201,930	159,438	42,492
Investment earnings	562,719	76,175	486,544
Miscellaneous	128,260	86,409	41,851
Total revenues	<u>\$ 12,200,487</u>	<u>\$ 10,533,048</u>	<u>1,667,439</u>
Expenses			
Instruction	2,779,498	2,342,240	437,258
Instructional resources & media serv	57,877	21,700	36,177
Curriculum & staff development	45,620	34,367	11,253
Instructional leadership	6,202	15,552	(9,350)
School leadership	353,350	327,861	25,489
Guidance, counseling, & evaluation services	86,949	77,729	9,220
Health services	19,454	18,735	719
Student (pupil) transportation	202,099	221,108	(19,009)
Food Services	223,379	214,971	8,408
Extracurricular activities	520,772	489,537	31,235
General administration	615,726	493,706	122,020
Facility maintenance & operations	1,981,089	2,344,262	(363,173)
Security & monitoring services	92,588	20,631	71,957
Data processing services	162,766	150,922	11,844
Community services	122,594	104,354	18,240
Debt service – interest	86,125	225,546	(139,421)
Debt service – bond costs	7,300	1,000	6,300
Contracted inst services between schools	3,582,272	2,966,280	615,992
Payments related to shared service arrangements	295,406	266,122	29,284
Other intergovernmental charges	255,306	196,590	58,716
Total expenses	<u>11,496,372</u>	<u>10,533,213</u>	<u>963,159</u>
Change in net assets	704,115	(165)	704,280
Net position-beginning	<u>31,105,523</u>	<u>31,105,688</u>	<u>(165)</u>
Net position-ending	<u>\$ 31,809,638</u>	<u>\$ 31,105,523</u>	<u>\$ 704,115</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 \$12,119,651 compared to a balance of \$13,019,679 in the prior year. This represents a \$900,028 decrease in the fund balance. As can be seen on Exhibit C-3 the combined decrease consists of a decrease in the general fund of \$1,006,717 and an increase in the debt service fund of \$106,689.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the District had \$40,985,478 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 \$13,711,505. Current year additions included purchase of houses and a micro bird bus. 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted a 2024 budget for the General Fund in the amount of \$9,410,311 for the general fund expenditures. The 2024 budget is based on a current tax rate of \$.8450 for operations and maintenance and a debt service tax rate of \$.2398.

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, 2023

EXHIBIT A-1

Data Control Codes	Primary Government <hr/> Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 12,514,569
1220 Property Taxes - Delinquent	82,431
1230 Allowance for Uncollectible Taxes	(28,308)
1240 Due from Other Governments	61,512
1267 Due from Fiduciary Funds	7,149
1290 Other Receivables, Net	5,361
Capital Assets:	
1510 Land	599,961
1520 Buildings, Net	26,031,377
1530 Furniture and Equipment, Net	642,635
1000 Total Assets	<hr/> 39,916,687
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	1,130,228
1706 Deferred Outflow Related to TRS OPEB	945,274
1700 Total Deferred Outflows of Resources	<hr/> 2,075,502
LIABILITIES	
2110 Accounts Payable	89,649
2160 Accrued Wages Payable	160,334
2180 Due to Other Governments	116,730
2200 Accrued Expenses	75,257
2300 Unearned Revenue	26,970
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	1,452,005
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	4,034,077
2540 Net Pension Liability (District's Share)	1,555,592
2545 Net OPEB Liability (District's Share)	838,071
2000 Total Liabilities	<hr/> 8,348,685
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	305,387
2606 Deferred Inflow Related to TRS OPEB	1,528,479
2600 Total Deferred Inflows of Resources	<hr/> 1,833,866
NET POSITION	
3200 Net Investment in Capital Assets and Right-to-Use Lease Assets	21,794,896
3850 Restricted for Debt Service	3,070,584
3900 Unrestricted	6,944,158
3000 Total Net Position	<hr/> <hr/> \$ 31,809,638

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, 2023

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	\$ 2,779,498	\$ -	\$ 114,580	\$ (2,664,918)
12 Instructional Resources and Media Services	57,877	-	1,099	(56,778)
13 Curriculum and Instructional Staff Development	45,620	-	733	(44,887)
21 Instructional Leadership	6,202	-	-	(6,202)
23 School Leadership	353,350	-	6,328	(347,022)
31 Guidance, Counseling, and Evaluation Services	86,949	-	74,492	(12,457)
33 Health Services	19,454	-	288	(19,166)
34 Student (Pupil) Transportation	202,099	-	1,415	(200,684)
35 Food Services	223,379	50,275	127,996	(45,108)
36 Extracurricular Activities	520,772	20,389	3,929	(496,454)
41 General Administration	615,726	-	10,726	(605,000)
51 Facilities Maintenance and Operations	1,981,089	55,014	46,056	(1,880,019)
52 Security and Monitoring Services	92,588	-	43,366	(49,222)
53 Data Processing Services	162,766	-	3,566	(159,200)
61 Community Services	122,594	10,221	325	(112,048)
72 Debt Service - Interest on Long-Term Debt	86,125	-	8,289	(77,836)
73 Debt Service - Bond Issuance Cost and Fees	7,300	-	-	(7,300)
91 Contracted Instructional Services Between Schools	3,582,272	-	-	(3,582,272)
93 Payments Related to Shared Services Arrangements	295,406	-	-	(295,406)
99 Other Intergovernmental Charges	255,306	-	-	(255,306)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 11,496,372	\$ 135,899	\$ 443,188	(10,917,285)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			8,380,290
DT	Property Taxes, Levied for Debt Service			2,348,201
SF	State Aid - Formula Grants			201,930
IE	Investment Earnings			562,719
MI	Miscellaneous Local and Intermediate Revenue			128,260
TR	Total General Revenues			11,621,400
CN	Change in Net Position			704,115
NB	Net Position - Beginning			31,105,523
NE	Net Position - Ending			\$ 31,809,638

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2023

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 9,444,449	\$ 3,063,939	\$ 6,181	\$ 12,514,569
1220 Property Taxes - Delinquent	67,383	15,048	-	82,431
1230 Allowance for Uncollectible Taxes	(23,501)	(4,807)	-	(28,308)
1240 Due from Other Governments	38,131	3,409	19,972	61,512
1260 Due from Other Funds	27,121	-	-	27,121
1290 Other Receivables	5,361	-	-	5,361
1000 Total Assets	<u>\$ 9,558,944</u>	<u>\$ 3,077,589</u>	<u>\$ 26,153</u>	<u>\$ 12,662,686</u>
LIABILITIES				
2110 Accounts Payable	\$ 89,649	\$ -	\$ -	\$ 89,649
2160 Accrued Wages Payable	154,286	-	6,048	160,334
2170 Due to Other Funds	-	-	19,972	19,972
2180 Due to Other Governments	116,730	-	-	116,730
2200 Accrued Expenditures	75,124	-	133	75,257
2300 Unearned Revenue	26,970	-	-	26,970
2000 Total Liabilities	<u>462,759</u>	<u>-</u>	<u>26,153</u>	<u>488,912</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	43,882	10,241	-	54,123
2600 Total Deferred Inflows of Resources	<u>43,882</u>	<u>10,241</u>	<u>-</u>	<u>54,123</u>
FUND BALANCES				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	3,067,348	-	3,067,348
Committed Fund Balance:				
3510 Construction	2,000,000	-	-	2,000,000
3600 Unassigned Fund Balance	7,052,303	-	-	7,052,303
3000 Total Fund Balances	<u>9,052,303</u>	<u>3,067,348</u>	<u>-</u>	<u>12,119,651</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,558,944</u>	<u>\$ 3,077,589</u>	<u>\$ 26,153</u>	<u>\$ 12,662,686</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, 2023

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 12,119,651
1 Net capital assets used in governmental activities are reported in the Statement of Net Position.	27,273,973
2 The district's contributions made to TRS and TRS-Care subsequent to the 8/31/22 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.	2,075,502
3 Bonds payable (including premiums and accrued interest thereon) are reported in the Statement of Net Position.	(5,486,082)
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.	(2,393,663)
5 The district's proportionate share of the TRS and TRS-Care collective deferred inflows are reported in the Statement of Net Position.	(1,833,866)
6 Net delinquent property taxes receivable are not deferred in the Statement of Net Position.	54,123
19 Net Position of Governmental Activities	<u><u>\$ 31,809,638</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, 2023

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 9,057,311	\$ 2,451,491	\$ 50,275	\$ 11,559,077
5800 State Program Revenues	447,228	8,289	71,033	526,550
5900 Federal Program Revenues	-	-	270,903	270,903
5020 Total Revenues	<u>9,504,539</u>	<u>2,459,780</u>	<u>392,211</u>	<u>12,356,530</u>
EXPENDITURES:				
Current:				
0011 Instruction	2,763,145	-	59,865	2,823,010
0012 Instructional Resources and Media Services	59,572	-	-	59,572
0013 Curriculum and Instructional Staff Development	46,695	-	-	46,695
0021 Instructional Leadership	6,202	-	-	6,202
0023 School Leadership	360,830	-	-	360,830
0031 Guidance, Counseling, and Evaluation Services	11,731	-	74,398	86,129
0033 Health Services	19,871	-	-	19,871
0034 Student (Pupil) Transportation	204,397	-	-	204,397
0035 Food Services	11,613	-	215,360	226,973
0036 Extracurricular Activities	510,415	-	-	510,415
0041 General Administration	623,684	-	2,897	626,581
0051 Facilities Maintenance and Operations	945,987	-	37,317	983,304
0052 Security and Monitoring Services	64,523	-	43,052	107,575
0053 Data Processing Services	168,270	-	-	168,270
0061 Community Services	68,503	-	-	68,503
Debt Service:				
0071 Principal on Long-Term Liabilities	-	2,150,000	-	2,150,000
0072 Interest on Long-Term Liabilities	-	195,791	-	195,791
0073 Bond Issuance Cost and Fees	-	7,300	-	7,300
Capital Outlay:				
0081 Facilities Acquisition and Construction	472,156	-	-	472,156
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	3,582,272	-	-	3,582,272
0093 Payments to Fiscal Agent/Member Districts of SSA	295,406	-	-	295,406
0099 Other Intergovernmental Charges	255,306	-	-	255,306
6030 Total Expenditures	<u>10,470,578</u>	<u>2,353,091</u>	<u>432,889</u>	<u>13,256,558</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(966,039)</u>	<u>106,689</u>	<u>(40,678)</u>	<u>(900,028)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	40,678	40,678
8911 Transfers Out (Use)	(40,678)	-	-	(40,678)
7080 Total Other Financing Sources (Uses)	<u>(40,678)</u>	<u>-</u>	<u>40,678</u>	<u>-</u>
1200 Net Change in Fund Balances	(1,006,717)	106,689	-	(900,028)
0100 Fund Balance - September 1 (Beginning)	<u>10,059,020</u>	<u>2,960,659</u>	<u>-</u>	<u>13,019,679</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 9,052,303</u>	<u>\$ 3,067,348</u>	<u>\$ -</u>	<u>\$ 12,119,651</u>

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, 2023

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (900,028)
Capital outlay expenditures are capitalized in the government-wide financial statements.	572,149
Depreciation of capital assets is recognized in the government-wide financial statements.	(1,201,408)
Bond repayments are reported as a decrease in liabilities in the government-wide financial statements.	2,150,000
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.	106,998
Accrued interest on bonds is reported in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.	2,668
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 \$129,779 less 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 \$152,335 less than the statutory amount contributed and reported as on-behalf revenue and expenditure in the fund financial statements.	(22,556)
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.	(3,708)
Change in Net Position of Governmental Activities	\$ 704,115

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, 2023

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	\$ 8,452,139	\$ 8,452,139	\$ 9,057,311	\$ 605,172
5800	State Program Revenues	394,965	386,302	447,228	60,926
5900	Federal Program Revenues	-	8,663	-	(8,663)
5020	Total Revenues	8,847,104	8,847,104	9,504,539	657,435
EXPENDITURES:					
Current:					
0011	Instruction	2,782,618	2,742,618	2,763,145	(20,527)
0012	Instructional Resources and Media Services	59,653	58,653	59,572	(919)
0013	Curriculum and Instructional Staff Development	41,674	48,674	46,695	1,979
0021	Instructional Leadership	6,500	6,500	6,202	298
0023	School Leadership	347,708	358,708	360,830	(2,122)
0031	Guidance, Counseling, and Evaluation Services	27,458	12,458	11,731	727
0033	Health Services	26,140	21,140	19,871	1,269
0034	Student (Pupil) Transportation	168,152	210,342	204,397	5,945
0035	Food Services	7,533	9,471	11,613	(2,142)
0036	Extracurricular Activities	503,936	523,936	510,415	13,521
0041	General Administration	608,170	636,170	623,684	12,486
0051	Facilities Maintenance and Operations	950,112	947,035	945,987	1,048
0052	Security and Monitoring Services	59,507	72,507	64,523	7,984
0053	Data Processing Services	182,156	170,156	168,270	1,886
0061	Community Services	76,305	73,305	68,503	4,802
Debt Service:					
0071	Principal on Long-Term Liabilities	30,000	-	-	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	472,156	472,156	-
Intergovernmental:					
0091	Contracted Instructional Services Between Schools	3,500,000	3,550,000	3,582,272	(32,272)
0093	Payments to Fiscal Agent/Member Districts of SSA	284,910	295,510	295,406	104
0099	Other Intergovernmental Charges	240,000	255,500	255,306	194
6030	Total Expenditures	9,902,532	10,464,839	10,470,578	(5,739)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,055,428)	(1,617,735)	(966,039)	651,696
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(127,786)	(127,786)	(40,678)	87,108
1200	Net Change in Fund Balances	(1,183,214)	(1,745,521)	(1,006,717)	738,804
0100	Fund Balance - September 1 (Beginning)	10,059,020	10,059,020	10,059,020	-
3000	Fund Balance - August 31 (Ending)	\$ 8,875,806	\$ 8,313,499	\$ 9,052,303	\$ 738,804

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, 2023

	Custodial Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 142,049
Total Assets	<u>142,049</u>
LIABILITIES	
Accounts Payable	5,736
Due to Other Funds	<u>7,149</u>
Total Liabilities	<u>12,885</u>
NET POSITION	
Restricted for Campus Activities	<u>129,164</u>
Total Net Position	<u><u>\$ 129,164</u></u>

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

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2023

	Custodial Fund
ADDITIONS:	
Contributions to Student Groups	\$ 25,432
Fundraisers	73,499
Enterprising Services Revenue	6,342
Concession	94,715
Earnings from Temporary Deposits	34
Total Additions	<u>200,022</u>
DEDUCTIONS:	
Class Trip	52,124
Supplies and Materials	117,099
Total Deductions	<u>169,223</u>
Change in Fiduciary Net Position	30,799
Total Net Position - September 1 (Beginning)	<u>98,365</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 129,164</u></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, 2023

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. Investments are reported at fair value.

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 District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Sterling County Independent school District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities 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, 2023

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

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

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

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. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus all assets and all liabilities associated with the operations of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

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:

Custodial Funds – The District accounts for resources held for others in a custodial capacity in custodial funds. These funds are used to account for assets held by the District as a custodian for student and other organizations.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

E. Other Accounting Policies

1. The District records purchases of supplies as expenditure when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as expenditures and revenue of an equal amount.
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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable reported net of the applicable bond premium or discount. Right-to-use leases are reported in the government wide statements with the lease liability calculated as the present value of reasonably certain expected future payments over the term of the lease. The District implemented GASB 96 for reporting subscription-based information technology arrangements (SBITAs) during this reporting period. A SBITA is defined as a contract that conveys control over another entity's IT software as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a SBITA, it must meet the definition of a "long-term" SBITA provided in GASB 96. The right-to-use SBITA liability is reported in the government-wide statements. The SBITA liability is calculated as the present value of the reasonably certain expected payments made over the term of the contract and the interest included in the SBITA payments is recorded as an expense. There were no SBITAs material to the financial statements that were recorded during the year audited.

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

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. No accrual is reflected in the financial statements for this due to the amount being immaterial to the financial statements.
4. Land, buildings, equipment, and right-to-use lease assets 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

E. Other Accounting Policies - Continued

The right-to-use lease asset capitalization level is determined by the Board. The term of the lease must be the non-cancelable period during which the District has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87 . If the lease is in a governmental fund, the full amount of the lease asset will be reported as an expenditure in the fund level statements the year the agreement is made. Note with existing contracts that were evaluated as leases for this year of implementation, the recording of the lease asset and liability would not be reported in governmental fund statements but would be reported in the government wide statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings and equipment of the District are depreciated using the straight line method over the following estimated useful lives or, for the lease asset, for the term of the lease if the estimated useful life is longer than the term of the lease if there is an option to purchase which is expected to be exercised:

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	20-40
Vehicles	5-10
Furniture and Equipment	5-20
Right-to-Use	None in the current year

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.
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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

E. Other Accounting Policies - Continued

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 general governments are required to report investments at fair value. These methods are disclosed in section III.A below.
9. In addition to assets, the statement of net 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 of resources until that time. See the pension footnote for a further description of this amount.
10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. One type of item which arises only under a modified accrual basis of accounting that qualifies of reporting in this category is uncollected property taxes which are reported on the balance sheet for governmental funds. The other items reported in this category are discussed in the pension footnote.
11. The preparation of financial statements in conformity with GAAP requires the use of management estimates.
12. 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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

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.

B. Excess of Expenditures over Appropriations

General Fund:

Instruction	\$ 20,527
Instructional Resources	919
School Leadership	2,122
Food Services	2,142
Cont Instruc Services	32,272

The overages in the General Fund are due to an audit adjustment to accrue and additional health insurance assessment for the District's health insurance coverage. See Footnote III L.

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. The District was not exposed to custodial credit risk.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

A. Cash, Cash Equivalents and Investments- Continued

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.

As of August 31, 2023, 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	\$ 11,071,974	87.5%	\$11,071,974	0	N/A
Certificates of Deposit	411,314	3.3 %	411,314	0	N/A
Investment Pools:					
TexStar	<u>1,173,330</u>	<u>9.2%</u>	<u>1,173,330</u>	<u>0</u>	<u>AAA</u>
Total Cash and Cash Equivalents	<u>\$ 12,656,618</u>	100.0%	<u>\$ 12,656,618</u>		

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

A. Cash, Cash Equivalents and Investments – Continued

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. As of August 31, 2021, all of the District’s investments were rated AAA by Standard & Poor’s rating agency. Therefore, the District was not exposed to credit risk.

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. The District was not exposed to custodial credit risk.

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. The District was not exposed to concentration of credit risk.

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. The District was not exposed to interest rate risk.

Foreign Currency Risk for Investments the District limits the risk that changes in exchange rates will adversely affect the fair value of an investment. The District was not exposed to foreign currency risk.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

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 without specific statutory authority from the Texas Legislature.

D Interfund Transfers and Balances

Interfund balances at August 31, 2023 consist of the following:

Due to General fund from Special Revenue Funds	\$ 19,972	To combine negative cash balance in General fund
Due to General fund from Custodial Fund	<u>7,149</u>	To show transfer of inactive accts to General fund
Total	<u>\$ 27,121</u>	

Interfund transfers at August 31, 2023 consisted of the following:

Transfers to Nonmajor Governmental Funds from:

General Fund to Cafeteria Fund	<u>\$ 40,678</u>	Transfer to subsidize operations
--------------------------------	------------------	----------------------------------

E. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2023, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balances</u>
Governmental Activities:				
Land	\$ 599,961	\$ 0	\$ 0	\$ 599,961
Buildings and Improvements	37,760,268	488,418	0	38,248,686
Furniture and Equipment	1,126,020	16,541	0	1,142,561
Vehicles	927,080	67,190	0	994,270
Total Capital Assets	<u>40,413,329</u>	<u>572,149</u>	<u>0</u>	<u>40,985,478</u>
Less Accumulated Depreciation:				
Buildings and Improvements	11,147,256	1,070,053	0	12,217,309
Furniture and Equipment	749,106	64,305	0	813,411
Vehicles	613,735	67,050	0	680,785
Total Accumulated Depreciation	<u>12,510,097</u>	<u>1,201,408</u>	<u>0</u>	<u>13,711,505</u>
Governmental Capital Assets, Net	<u>\$27,903,232</u>	<u>\$(629,529)</u>	<u>\$ 0</u>	<u>\$27,273,973</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

E. Capital Asset Activity- Continued

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 42,287
Student (Pupil) Transportation	67,050
Food Services	1,569
Extracurricular Activities	15,721
Facilities Maintenance and Operations	1,018,444
Security and Monitoring Services	1,758
Community Services	54,579
Totals	<u>\$ 1,201,408</u>

F. Bonds Payable

Bonds payable consist of the following:

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 Series 2015 bonds. Bonds maturing in 2024 bear interest at 4% and 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.

Unlimited Tax Refunding Bonds, Series 2020

These bonds were issued November 18, 2020 for a face amount of \$3,075,000 to refund the remaining Series 2016 bonds. The remaining unpaid bonds 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.

Current Year Activity

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2019 Bonds	\$ 4,615,000	\$ 0	\$ (705,000)	\$ 3,910,000	\$ 730,000
Net Premium	136,773	0	(53,320)	83,453	
Series 2020 Bonds	2,895,000	0	(1,445,000)	1,450,000	715,000
Net Premium	<u>89,302</u>	<u>0</u>	<u>(53,678)</u>	<u>35,624</u>	
Totals	<u>\$ 7,736,075</u>	<u>\$ 0</u>	<u>\$(2,256,998)</u>	5,479,077	<u>\$ 1,445,000</u>
Accrued Interest Payable				<u>7,005</u>	
Total Noncurrent Liabilities				5,486,082	
Due Within One Year (including accrued interest payable)				<u>(1,452,005)</u>	
Due In More Than One Year				<u>\$ 4,034,077</u>	

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

F. Bonds Payable - Continued

The combined future minimum payments for all long-term debt are as follows. These amounts do not take into effect the net premiums above. The combined totals consist of \$3,910,000 of Series 2019 Bonds and \$1,450,000 of Series 2020 Bonds.

Year End <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,445,000	\$ 142,775	\$ 1,587,775
2025	1,495,000	95,025	1,590,025
2026	785,000	60,825	845,825
2027	805,000	36,975	841,975
2028	<u>830,000</u>	<u>12,450</u>	<u>842,450</u>
Totals	<u>\$ 5,360,000</u>	<u>\$ 348,050</u>	<u>\$ 5,708,050</u>

G. Subscription Based Information Technology Agreements

Sterling City Independent School District has adopted GASB 96 and has considered these subscription based information technology agreements. A review of these arrangements indicated that none of them are for a period longer than twelve months and are therefore not subject to the calculation of a SBITA asset and related liability.

H. Fund Balances / Net Position

Fund balances consist of restricted balances which are set aside for retirement of debt of \$3,067,348. Committed fund balance consists of the following amounts which were approved by the Board of Trustees.

Building Construction \$ 2,000,000

The remaining fund balance of \$7,052,303 is unassigned and available for operations of the next year.

Net position of the District totaled \$31,809,638 and consisted of the following amounts:

Net investment in Capital Assets \$21,794,896.

Restricted for Debt Service \$3,070,584.

Unrestricted of \$6,944,158.

I. 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). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution.

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

I. Defined Benefit Pension Plan – Continued

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> ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension 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 for the fiscal years 2019 through 2024.

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. Actuarial implications of the funding provided in this manner are determined by the System's actuary.

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

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- All public schools, charter schools and regional education service centers must contribute 1.7 percent of the member's salary beginning in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025. The surcharge for fiscal year 2023 is 1.80 percent.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2023

I. Defined Benefit Pension Plan – Continued

The following table shows contribution rates by type of contributor for the fiscal years 2022 and 2023.

	<u>Contribution Rates</u>	
	<u>2022</u>	<u>2023</u>
Member	8.00%	8.00%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.75%	8.00%
Current fiscal year District contributions		\$ 155,401
Current fiscal year Member contributions		\$ 286,555
Measurement year NECE On-Behalf contributions		\$ 186,416

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).

Net Pension Liability

Components of the net pension liability of the plan as of August 31, 2022 are disclosed below: (From TRS Annual Comprehensive Financial Report 2022, p 86.)

Components of Liability	Amount
Total Pension Liability	\$ 243,553,045,455
Less: Plan Fiduciary Net Position	<u>(184,185,617,196)</u>
Net Pension Liability	<u>\$ 59,367,428,259</u>

Actuarial Assumptions

Roll Forward – The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

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 are the same as the ones used as of August 31, 2021.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

I. Defined Benefit Pension Plan – Continued

The following table discloses the assumptions that were applied to this measurement period. (From TRS Annual Comprehensive Financial Report 2021 p.87.)

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method Value	Market Value
Single Discount Rate	7.00%
Long-term expected Rate	7.00%
Municipal Bond Rate as of 8-31-2020	3.91% - 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)	2121
Inflation	2.30%
Salary Increases including Inflation	2.95% to 8.95% 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, 2021. For a full description of these assumptions please see the TRS actuarial valuation report dated November 12, 2021.

Discount Rate. A single discount rate of 7.00% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.00%. 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. It is assumed the future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods or projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 7.00 percent. The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate rates of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2022 are summarized below:

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

I. Defined Benefit Pension Plan – Continued

Asset Class	Target Allocation%*	Long-Term Expected Geometric Real Rate of Return***	Expected Contribution to Long Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.60%	1.12%
Non-U.S. Developed	13.00	4.90	0.90
Emerging Markets	9.00	5.40	0.75
Private Equity	14.00	7.70	1.55
Stable Value			
Government Bonds	16.00	1.00	0.22
Absolute Return	----	3.70	----
Stable Value Hedge Funds	5.00	3.40	0.18
Real Return			
Real Estate	15.00	4.10	0.94
Energy and Natural Resources	6.00	5.10	0.37
Commodities	----	3.60	----
Risk Parity			
Risk Parity	8.00	4.60	0.43
Asset Allocation Leverage			
Cash	2.00	3.00	0.01
Asset Allocation Leverage	(6.00)	3.60	(0.05)
Inflation Expectation			2.70
Volatility Drag***			(0.91)
Expected Return	100.00%		8.19%

* Absolute Return includes Credit Sensitive Investments.

** Target allocations are based on the FY 2022 policy model

*** Capital Market Assumptions come from Aon Hewitt (as of 08/31/2022)

**** The volatility drag results from the conversion between arithmetic and geometric mean returns

Discount Rate Sensitivity Analysis. The following table presents the District's net pension liability of the plan using the discount rate of 7.00 percent, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Proportionate share of the Net Pension Liability	\$ 2,419,912	\$ 1,555,592	\$ 855,021

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

I. 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, 2023, the District reported a liability of \$1,555,592 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	\$ 1,555,592
State's proportionate share that is associated with the District	<u>2,371,698</u>
Total	<u>\$ 3,927,290</u>

The net pension liability was measured as of August 31, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's portion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

At August 31, 2022 the employer's proportion of the collective net pension liability was 0.002202791%. which was an increase of 0.0009496662% from its proportion measured as of August 31, 2021.

Changes In Assumptions Since the Prior Actuarial Valuation – The actuarial assumptions and methods have been modified since the determination of the prior year's Net Pension Liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7.00 percent.

Changes in Benefits – There were no changes in benefits

For the year ended August 31, 2023, the District recognized pension expense of \$473,264 and revenue of \$226,707 for support provided by the State.

At August 31, 2023 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	\$ 22,556	\$ 33,915
Changes in actuarial assumptions	289,857	72,241
Differences between projected and actual investment earnings	153,687	0
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>508,727</u>	<u>199,231</u>
Totals as of measurement date	974,827	305,387
Contributions paid to TRS subsequent to the measurement date	<u>155,401</u>	<u>0</u>
Total as of fiscal year end	<u>\$1,130,228</u>	<u>\$ 305,387</u>

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

I. Defined Benefit Pension Plan – Continued

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 Amount
2024	\$ 168,996
2025	\$ 127,210
2026	\$ 89,125
2027	\$ 222,057
2028	\$ 62,053
Thereafter	\$ (1)

The net pension liability of \$1,555,592 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 Pension Liability	<u>\$ 425,466</u>	<u>\$ 1,252,416</u>	<u>\$ 122,270</u>	<u>\$ 1,555,592</u>

J. Unavailable Revenue

Unavailable revenue at year end consisted of the following:

	General Fund	Debt Service Fund	Total
Property Taxes	<u>\$ 43,882</u>	<u>\$ 10,241</u>	<u>\$ 54,123</u>

**K. 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 TRS-Care program was established in 1986 by the Texas Legislature.

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance code Chapter 1575. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

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.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

K. Defined Other Post-Employment Benefit Plans – Continued

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. There are no automatic post-employment benefit changes; including automatic COLAs.

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

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.

At the inception of the plan, funding was projected to last 10 years through fiscal year 1995. The original funding was sufficient to maintain the solvency of the fund through fiscal year 2000. Since that time, appropriations and contributions have been established to fund the benefits for each successive biennium.

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 a public school 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 or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor which were reported for the district by TRS for the measurement year. These were included in the calculation of the district's proportionate share of the net TRS- Care liability.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

K. Defined Other Post-Employment Benefit Plans- Continued

	<u>Contribution Rates</u>	
	<u>2022</u>	<u>2023</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		\$ 35,082
Current fiscal year Member contributions		\$ 21,533
Measurement year NECE On-Behalf contributions		\$ 35,068

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 a supplemental appropriations from the State of Texas as the NON-Employer Contributing Entity in the amount of \$83 million in fiscal year 2022 from the Federal Rescue Plan Act (ARPA) to help defray COVID-19 related health care costs during fiscal year 2022.

Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the total OPEB liability to August 31, 2022. The actuarial valuation was determined using the following actuarial assumptions;

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographics assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022.

Rates of Mortality	Rates of Disability
Rates of Retirement	General Inflation
Rates of Termination	Wage Inflation

The active mortality rates were based on 90% of the RP-2014 Employee Mortality tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from mortality projection scale MP-2018.

Election Rates for Normal Retirement – The rates are 65% participation prior to age 65 and 40% participating after age 65.

Election Rates for Pre-65 Retirees – 25% of pre-65 retirees are assumed to discontinue coverage at 65.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

K. Defined Other Post-Employment Benefit Plans- Continued

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2021 Rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.91% as of August 31, 2022.
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%, including inflation
Ad Hoc Post-Employment Ben Changes	None

The initial medical trend rates were 8.50% for Medicare retirees and 7.25% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.

Discount Rate A single discount rate of 3.91% was used to measure the total OPEB liability. This was an increase of 1.96% in the discount rate since the previous year. The Discount Rate can be found in the 2023 TRS CAFR on page 77. 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 these 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 used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity “20-year Municipal GO AA Index” as of August 31, 2021 using the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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 (3.91%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.91%)	Current Single Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
District’s proportionate share of net OPEB Liability	\$ 988,153	\$ 838,071	\$ 716,486

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

K. Defined Other Post-Employment Benefit Plans – Continued

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	\$ 690,575	\$ 838,071	\$ 1,029,282

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

At August 31, 2023, the District reported a liability of \$838,071 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	\$ 838,071
State's proportionate share that is associated with the District	<u>1,022,315</u>
Total	<u>\$ 1,860,386</u>

The net OPEB liability was measured as of August 31, 2022 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, 2021 thru August 31, 2022.

At August 31, 2022 the District's proportion of the collective net OPEB liability was 0.0035001304%, which was an increase of .0007077286% from the August 31, 2021.

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 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change decreased the Total OPEB liability (TOL).

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

For the year ended August 31, 2023, the District recognized OPEB expense of \$ (178,593). 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 \$(145,075). 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, 2023

K. Defined Other Post-Employment Benefit Plans- Continued

At August 31, 2023, 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	\$ 46,594	\$ 698,189
Changes in actuarial assumptions	127,655	582,242
Differences between projected and actual investment Earnings	2,496	0
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	<u>733,447</u>	<u>248,048</u>
Total as of measurement date	\$ 910,192	\$ 1,528,479
Contributions paid to TRS subsequent to the measurement date	<u>35,082</u>	<u>0</u>
Total as of fiscal year end	<u>\$ 945,274</u>	<u>\$ 1,528,479</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>
2024	\$(127,924)
2025	(127,915)
2026	(92,374)
2027	(44,259)
2028	(78,799)
Thereafter	(147,016)

The net OPEB liability of \$838,071 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 OPEB Liability	<u>\$ 1,077,174</u>	<u>\$(210,355)</u>	<u>\$ 28,748</u>	<u>\$ 838,071</u>

**L. Health Insurance
Active Employees**

During the year ended August 31, 2023, employees of the District had the option of choosing a health insurance plan through TEHP, a pooled insurance fund covering approximately 31 school districts. The plan allowed coverage for additional family members. The District contributed up to \$250 of the monthly premium. Employees, at their option, could authorize payroll withholdings for premiums exceeding \$250. Due to shortfalls in coverage for the plan, additional assessments were issued to the participating school districts to make up for this shortage. The total shortage of \$71,844 has been accrued in the financial statements and represents Sterling City ISD's portion of the \$3,332,803 total shortage for the plan.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

L. Health Insurance- Continued

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, 2023, 2022 and 2021 were \$14,154, \$11,684 and \$12,102, respectively.

M. 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, 2023, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	State & Fed	Local	
	<u>Entitlements</u>	<u>Governments</u>	<u>Totals</u>
General Fund	\$ 97	\$ 38,034	\$ 38,131
Special Rev Fund	19,972	0	19,972
Debt Service	0	3,409	3,409
Total	<u>\$ 20,069</u>	<u>\$ 41,443</u>	<u>\$ 61,512</u>

N. Revenue from Local and Intermediate Sources

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

	Debt			
	General	Service	Other	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Property Taxes	\$ 8,383,238	\$ 2,348,961	\$ 0	\$10,732,199
Investment Income	460,189	102,530	0	562,719
Food Sales	0	0	50,275	50,275
Co-Curricular Activities	20,389	0	0	20,389
Rentals	55,014	0	0	55,014
Pool operations	10,221	0	0	10,221
Other	128,260	0	0	128,260
Totals	<u>\$ 9,057,311</u>	<u>\$ 2,451,491</u>	<u>\$ 50,275</u>	<u>\$11,559,077</u>

O. 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, 2023 was \$9,924 and was recorded as an insurance expenditure.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

P. Workers Compensation Insurance- Continued

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

Unpaid claims as of September 1, 2022	\$ 16,266
Incurred claims (including IBNRs)	654
Payments	<u>(1,184)</u>
Unpaid claims as of August 31, 2023	<u>\$ 15,736</u>

Q. 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 did not participate in any other programs in the current year.

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 \$262,759 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 \$32,647 to the shared serviced arrangement. These expenses are also included in function 93.

R. 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 for \$26,970. The computers were not acquired before year end, so this amount has been deferred until next year and is shown as Unearned Revenue in these financial statements.

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2023

S. 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, 2023

S. 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
1115	20,231,570	30,000,000	185,058	0	0	0	185,058
1345	92,597,260	30,000,000	274,410	572,577	0	50,000	324,410
1578	0	30,000,000	0	0	0	50,000	50,000

T. Subsequent Events

Management has evaluated subsequent events through January 25, 2024, the date which the financial statements were available for 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, 2023

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
District's Proportion of the Net Pension Liability (Asset)	0.002620279%	0.001670613%	0.002225724%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,555,592	\$ 425,446	\$ 1,192,053
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	2,371,698	1,073,671	2,492,557
Total	<u>\$ 3,927,290</u>	<u>\$ 1,499,117</u>	<u>\$ 3,684,610</u>
District's Covered Payroll	\$ 3,369,967	\$ 2,826,768	\$ 3,267,600
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	46.16%	15.05%	36.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.62%	88.79%	75.54%

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, 2022 for year 2023, August 31, 2021 for year 2022, August 31, 2020 for year 2021, 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.

FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
0.001551918%	0.001651682%	0.001488428%	0.001695836%	0.0018348%	0.0009388%
\$ 806,735	\$ 909,126	\$ 475,919	\$ 640,831	\$ 648,577	\$ 250,766
2,098,246	2,181,292	1,256,768	1,640,954	1,625,796	1,288,615
\$ 2,904,981	\$ 3,090,418	\$ 1,732,687	\$ 2,281,785	\$ 2,274,373	\$ 1,539,381
\$ 2,438,086	\$ 2,362,348	\$ 2,172,547	\$ 2,333,448	\$ 2,348,906	\$ 2,126,338
33.09%	38.48%	21.91%	27.46%	27.61%	11.79%
75.24%	73.74%	82.17%	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 2023

	2023	2022	2021
Contractually Required Contribution	\$ 155,401	\$ 121,842	\$ 71,231
Contribution in Relation to the Contractually Required Contribution	155,401	121,842	71,231
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,312,778	\$ 3,369,967	\$ 2,826,768
Contributions as a Percentage of Covered Payroll	4.69%	3.62%	2.52%

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.

2020	2019	2018	2017	2016	2015
\$ 90,942	\$ 53,919	\$ 52,824	\$ 48,782	\$ 53,881	\$ 54,328
90,942	53,919	52,824	48,782	53,881	54,328
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 3,267,600	\$ 2,438,086	\$ 2,362,348	\$ 2,172,547	\$ 2,333,448	\$ 2,348,906
2.78%	2.21%	2.24%	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, 2023

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.00350013%	0.002792402%	0.003308248%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 838,071	\$ 1,077,154	\$ 1,257,615
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	1,022,315	1,443,147	1,689,933
Total	<u>\$ 1,860,386</u>	<u>\$ 2,520,301</u>	<u>\$ 2,947,548</u>
District's Covered Payroll	\$ 3,369,967	\$ 2,826,768	\$ 3,267,600
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	24.87%	38.11%	38.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	11.52%	6.18%	4.99%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. The amounts for FY 2023 are for the measurement date of August 31, 2022. The amounts reported for FY 2022 are for measurement date August 31, 2021. The amounts reported for FY 2021 are for the measurement date of August 31, 2020. The amounts for FY 2020 are for the measurement date 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.

FY 2020 Plan Year 2019		FY 2019 Plan Year 2018		FY 2018 Plan Year 2017	
0.002687386%		0.002644896%		0.002346023%	
\$	1,270,899	\$	1,320,621	\$	1,020,197
1,688,739		2,103,093		1,786,795	
<u>\$ 2,959,638</u>		<u>\$ 3,423,714</u>		<u>\$ 2,806,992</u>	
<u><u>\$ 2,438,086</u></u>		<u><u>\$ 2,362,348</u></u>		<u><u>\$ 2,172,547</u></u>	
52.13%		55.90%		46.96%	
2.66%		1.57%		0.91%	

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2023

	2023	2022	2021
Contractually Required Contribution	\$ 35,082	\$ 27,679	\$ 21,802
Contribution in Relation to the Contractually Required Contribution	35,082	27,679	21,802
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,312,778	\$ 3,369,967	\$ 2,826,768
Contributions as a Percentage of Covered Payroll	1.06%	0.82%	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.

2020			2019		
			2018		
\$	25,152	\$	18,958	\$	18,246
	25,152		18,958		18,246
\$	-	\$	-	\$	-
\$	3,267,600	\$	2,438,086	\$	2,362,345
	0.77%		0.78%		0.77%

STERLING CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2023

Notes to Schedules for the TRS Pension

Changes in benefit terms

There were no changes in benefit terms since the prior measurement date.

Changes in assumptions

There was a changes in the actuarial assumptions. The primary change was the lowering of the single discount rate from 7.25% to 7.00%.

Notes to Schedules for the TRS OPEB Plan

Changes in benefit terms

There were no changes in benefit terms since the prior measurement date.

Changes in assumptions

The single discount rate changed from 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change decreased the total OPEB liability.

Lower participation rates and updates to health care trend rate assumptions were also factors that decreased the total OPEB liability.

REQUIRED TEA SCHEDULES

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2023

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2014 and prior years	Various	Various	\$ Various
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	0.970000	0.239800	482,594,826
2021	0.966400	0.239800	668,930,852
2022	0.963400	0.239800	800,564,943
2023 (School year under audit)	0.914700	0.239800	927,991,598
1000 TOTALS			

(10) Beginning Balance 9/1/2022		(20) Current Year's Total Levy		(31) Maintenance Collections		(32) Debt Service Collections		(40) Entire Year's Adjustments		(50) Ending Balance 8/31/2023	
\$	12,166	\$	-	\$	-	\$	-	\$	-	\$	12,166
	2,020		-		180		35		-		1,805
	2,442		-		805		155		-		1,482
	12,551		-		709		136		-		11,706
	3,699		-		485		93		-		3,121
	2,907		-		212		41		(3)		2,651
	10,046		-		645		159		(14)		9,228
	9,418		-		440		109		(168)		8,701
	29,271		-		14,415		3,625		1,173		12,404
	-		10,713,663		8,352,772		2,341,505		(219)		19,167
<u>\$ 84,520</u>		<u>\$ 10,713,663</u>		<u>\$ 8,370,663</u>		<u>\$ 2,345,858</u>		<u>\$ 769</u>		<u>\$ 82,431</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, 2023

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	\$ 40,000	\$ 40,000	\$ 50,275	\$ 10,275
5800 State Program Revenues	3,100	3,100	717	(2,383)
5900 Federal Program Revenues	56,290	56,290	123,690	67,400
5020 Total Revenues	99,390	99,390	174,682	75,292
EXPENDITURES:				
Current:				
0035 Food Services	227,176	227,176	215,360	11,816
6030 Total Expenditures	227,176	227,176	215,360	11,816
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(127,786)	(127,786)	(40,678)	87,108
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	127,786	127,786	40,678	(87,108)
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, 2023

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	\$ 2,346,728	\$ 2,346,728	\$ 2,451,491	\$ 104,763
5800 State Program Revenues	-	-	8,289	8,289
5020 Total Revenues	2,346,728	2,346,728	2,459,780	113,052
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Liabilities	2,150,000	2,150,000	2,150,000	-
0072 Interest on Long-Term Liabilities	207,625	207,625	195,791	11,834
0073 Bond Issuance Cost and Fees	-	-	7,300	(7,300)
6030 Total Expenditures	2,357,625	2,357,625	2,353,091	4,534
1200 Net Change in Fund Balances	(10,897)	(10,897)	106,689	117,586
0100 Fund Balance - September 1 (Beginning)	2,960,659	2,960,659	2,960,659	-
3000 Fund Balance - August 31 (Ending)	\$ 2,949,762	\$ 2,949,762	\$ 3,067,348	\$ 117,586

STERLING CITY INDEPENDENT SCHOOL DISTRICT
STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION PROGRAM EXPENDITURES
FOR THE YEAR ENDED AUGUST 31, 2023

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	239008
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	293046

Section B: Bilingual Education Programs

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	19968
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year.	5347

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, 2023, 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 January 25, 2024.

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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Reed, McKee & Co. P.C.
Reed, McKee & Co., P.C.
January 25, 2024

STERLING CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED AUGUST 31, 2023

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

EXHIBIT L-1

Sterling City Independent School District

Fiscal Year 2023

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