

**STERLING COUNTY,
TEXAS**

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S
REPORT

SEPTEMBER 30, 2017

Roberts & McGee, CPA
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STERLING COUNTY, TEXAS
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INDEPENDENT AUDITOR'S REPORT

To the Commissioners Court
Sterling County, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sterling County, Texas (the County), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sterling County, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 3-8 and 36-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

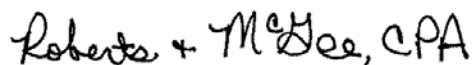
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sterling County, Texas' basic financial statements. The other supplementary schedules on pages 40-45 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary 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 March 9, 2018, on our consideration of Sterling County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sterling County, Texas' internal control over financial reporting and compliance.


Roberts & McGee, CPA

Abilene, Texas,
March 9, 2018

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

As management of Sterling County we offer readers of Sterling County, Texas' financial statements this narrative overview and analysis of the financial activities of Sterling County, Texas for the fiscal year ended September 30, 2017.

Financial Highlights

Government-Wide Financial Statements

- The assets of the governmental activities of Sterling County exceeded its liabilities at the close of the most recent fiscal year by \$9,494,924 (*net position*). Of this amount, \$4,244,214 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens. \$3,548,495 of the County's equity is invested in capital assets, net of related debt; and \$1,702,215 of the County's equity is restricted for special revenue funds, debt service, and capital construction.
- The assets of the business-type activities of Sterling County exceeded its liabilities at the close of the most recent fiscal year by \$1,828,299 (*net position*). Of this amount, \$1,039,133 (*unrestricted*) may be used to meet the government's ongoing obligations. \$789,166 of the County's equity is invested in capital assets.
- The net position (*equity*) of the governmental activities of the County decreased by \$83,906 during the 2017 fiscal year, and net position (*equity*) of the business-type activities of the County decreased by \$395,085 during the 2017 fiscal year.

Fund Financial Statements

- As of the close of the current fiscal year, Sterling County's general fund reported an ending unassigned fund balance of \$3,689,390. This fund balance reflects an increase of \$110,171 over the prior year unassigned fund balance.
- In the road & bridge fund, the fund balance increased \$23,034 for the current year.
- The proprietary fund which reports on the operations of the nursing home reflects a decrease in net position for the current year of \$395,085.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Sterling County's basic financial statements. Sterling County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

The government-wide financial statements reflect functions of Sterling County that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of Sterling County include general administration, judicial, legal, public facilities, road and bridge, public safety, health and welfare, and other supported services. The government-wide financial statements can be found on pages 9-11 of this report.

STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

Fund Financial Statements

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

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

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

Sterling County has four governmental fund types which are the general fund, special revenue funds, debt service fund, and capital projects fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road & bridge fund, construction fund, and debt service fund, which are considered to be major funds. Data from the other non-major governmental funds is combined into the aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements. The governmental fund financial statements can be found on pages 12-17 of this report.

Sterling County adopts an annual appropriated budget for the general fund, the road & bridge fund, and various other special revenue funds. Budgetary comparison schedules have been provided for the general fund and the road & bridge fund to demonstrate compliance with the budgets on pages 36-37.

Proprietary funds. Sterling County maintains one proprietary fund which is the Nursing Home Fund. This fund charges for the services it provides to residents of the nursing home. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the County's proprietary fund is the same as the business-type activities reported in the government-wide statements, but it provides more detail and additional information, such as cash flows, for the proprietary fund. The proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for other governmental units. The County's fiduciary funds are all reported as agency funds. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's basic programs. The basic agency fund financial statement can be found on page 21.

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-35 of this report.

Other information. The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information. These statements can be found on pages 40-43 of this report. Combining financial statements for the aggregated component units are also provided as other supplemental information and can be found on pages 44-45.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Sterling County, assets exceeded liabilities by \$9,494,924 in the governmental activities and \$1,828,299 in the business-type activities at the close of the most recent fiscal year.

\$4,337,661 of Sterling County's total net position (38 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of related debt. Sterling County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

Sterling County's Net Position

	Governmental Activities	
	2017	2016
Current assets	\$ 5,522,284	\$ 5,925,449
Non-current assets	6,031,142	6,280,365
Total Assets	11,553,426	12,205,814
Deferred Outflows - Pension	356,776	438,494
Total Assets and Deferred Outflows	11,910,202	12,644,308
Current liabilities	803,121	86,298
Long-term liabilities	1,505,000	2,955,000
Total Liabilities	2,308,121	3,041,298
Deferred Inflows - Pension	107,157	24,180
Total Liabilities and Deferred Outflows	2,415,278	3,065,478
Net investment in capital assets	3,548,495	3,138,086
Restricted	1,702,215	2,204,377
Unrestricted	4,244,214	4,236,367
Total Net Position	\$ 9,494,924	\$ 9,578,830

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

	<u>Business-Type Activities</u>	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 592,091	\$ 818,799
Non-current assets	1,082,233	1,047,721
Total Assets	1,674,324	1,866,520
Deferred Outflows - Pension	422,209	518,915
Total Assets and Deferred Outflows	2,096,533	2,385,435
Current liabilities	141,423	133,436
Total Liabilities	141,423	133,436
Deferred Inflows - Pension	126,811	28,615
Total Liabilities and Deferred Outflows	268,234	162,051
Net investment in capital assets	789,166	826,094
Unrestricted	1,039,133	1,397,290
Total Net Position	\$ 1,828,299	\$ 2,223,384

Sterling County's Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 603,120	\$ 755,709
Operating grants & contributions	80,116	43,711
Capital grants & contributions		0
General Revenues		
Property taxes	3,412,247	3,271,274
Investment earnings	21,524	15,668
Other income	59,597	87,366
Transfers	(586,389)	(427,988)
Total Revenues	3,590,215	3,745,740
Expenses		
General government	605,732	629,548
Road and bridge	1,237,711	738,328
County judge	94,896	89,923
County and district clerk	113,800	140,044
Justice of the peace	102,807	98,777
County attorney	54,238	30,378
County treasurer	71,177	67,137
County tax collector	98,927	89,859
County building operations	163,140	173,653
County sheriff	366,447	431,337
County agent	65,399	68,428
Trapper	64,800	64,800
Senior citizens	33,000	33,000
Volunteer fire department	83,189	82,304
EMS	240,718	26,878
Clinic	230,850	261,203
Interest and debt issuance costs	47,290	68,484
Total expenses	3,674,121	3,094,081
Change in Net Position	(83,906)	415,659
Beginning Net Position	9,578,830	9,163,171
Ending Net Position	\$ 9,494,924	\$ 9,578,830

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

	Business-Type Activities	
	2017	2016
Revenues:		
Program Revenues:		
Charges for services	\$ 1,906,376	\$ 2,132,622
Operating grants & contributions		337,010
General Revenues		
Transfers	586,389	427,988
Total Revenues	2,492,765	2,897,620
Expenses		
Nursing home	2,843,708	2,742,971
Total expenses	2,843,708	2,742,971
Change in Net Position	(350,943)	154,649
Beginning Net Position	2,223,384	2,053,449
Prior Period Adjustments	(44,142)	15,286
Ending Net Position	\$ 1,828,299	\$ 2,223,384

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

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

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

As of the end of the current fiscal year, Sterling County's governmental general fund reported an ending fund balance of \$3,689,390, which is generally unassigned and available for spending at the County's discretion. The road and bridge fund reported an ending fund balance of \$965,504 which is restricted for road and bridge operations.

The construction fund is a temporary fund which is used to record the construction costs related to the debt issuance of \$5.1 million from May 2014. During FY 2017, \$540,612 was spent on the construction project. This leaves a remaining fund balance of \$54,500 restricted for the construction project.

Fund Budgetary Highlights

The original and the final amended budgets for the general fund reflect a balanced budget. The actual expenditures were \$231,280 less than the final budgeted amounts, and actual revenues were \$165,120 less than was budgeted.

The original and the final amended budgets for the road and bridge fund reflect a balanced budget. The actual expenditures were \$45,692 less than the final budgeted amounts, and actual revenues were \$22,658 less than was budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets Sterling County's investment in capital assets for its governmental activities amounts to \$5,783,495 (net of accumulated depreciation), and the investment in capital assets for its business-type

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017**

activities amounts to \$789,166 (net of accumulated depreciation) as of September 30, 2017. This investment in capital assets includes land, buildings and improvements, infrastructure, and equipment.

Sterling County's Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 6,238	\$ 6,238
Construction in progress	77,247	77,247
Buildings and improvements	800,188	852,071
Infrastructure	3,482,865	3,594,352
Equipment	1,030,377	1,100,371
Vehicles	<u>386,580</u>	<u>462,807</u>
Total	<u>\$ 5,783,495</u>	<u>\$ 6,093,086</u>

Sterling County's Capital Assets
(net of depreciation)

	<u>Business-Type Activities</u>	
	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 721,694	\$ 725,244
Furniture and equipment	67,472	100,850
Total	<u>\$ 789,166</u>	<u>\$ 826,094</u>

Additional information on Sterling County's capital assets can be found in Note 5 on pages 29 and 30 of this report.

Debt Administration

Sterling County has long-term debt in the form of tax notes within the governmental activities of the County. As of September 30, 2017, the County had long term liabilities as follows:

Governmental Activities:

Tax Notes – Series 2014 \$ 2,235,000

Additional information on Sterling County's long term debt can be found in Note 6 on page 30 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sterling County adopted a 2017 property tax rate effective for its 2018 fiscal year of .551784 per \$100 property valuation. This is compared to the 2016 year tax rate of .527821 per \$100 property valuation. The 2017 tax rate is composed of .433121 for maintenance and operations and .118663 for I&S.
- The 2018 fiscal year budget was approved by the County in September of 2017.

Requests for Information

This financial report is designed to provide a general overview of Sterling County's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Treasurer, Sterling County, Box 819, Sterling City, Texas 76951.

BASIC FINANCIAL STATEMENTS

STERLING COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business-Type</u>		<u>Component</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Units</u>
ASSETS				
Current:				
Cash and cash investments	\$ 3,191,585	\$ 405,542	\$ 3,597,127	\$ 47,233
Investments	2,120,000		2,120,000	
Property tax receivable, net	57,557		57,557	
Accounts receivable, net	40,597	90,851	131,448	
Intergovernmental	29,400		29,400	
Accrued interest receivable	7,044		7,044	
Prepaid insurance	76,101	95,698	171,799	
Total current assets	<u>5,522,284</u>	<u>592,091</u>	<u>6,114,375</u>	<u>47,233</u>
Non-current:				
Capital assets				
Non-depreciable capital assets	83,485		83,485	
Depreciable capital assets, net	5,700,010	789,166	6,489,176	304,884
Net pension asset	247,647	293,067	540,714	
Total non-current assets	<u>6,031,142</u>	<u>1,082,233</u>	<u>7,113,375</u>	<u>304,884</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	356,776	422,209	778,985	
Total Assets and Deferred Outflows of Resources	<u>11,910,202</u>	<u>2,096,533</u>	<u>14,006,735</u>	<u>352,117</u>
LIABILITIES				
Current:				
Accounts payable	31,031	57,727	88,758	1,006
Accrued payroll expenses		70,772	70,772	
Due to other governmental entities	42,090		42,090	
Due to others		12,924	12,924	
Long term liabilities:				
Due within one year	730,000		730,000	
Due after one year:				
Tax notes	1,505,000		1,505,000	
Total Liabilities	<u>2,308,121</u>	<u>141,423</u>	<u>2,449,544</u>	<u>1,006</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	107,157	126,811	233,968	
NET POSITION				
Net investment in capital assets	3,548,495	789,166	4,337,661	304,884
Restricted	1,702,215		1,702,215	
Unrestricted	4,244,214	1,039,133	5,283,347	46,227
Total Net Position	<u>\$ 9,494,924</u>	<u>\$ 1,828,299</u>	<u>\$ 11,323,223</u>	<u>351,111</u>

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 605,732	\$ 29,957	\$ 70,923	\$
Road and bridge	1,237,711	112,272		
County judge	94,896	15,278	6,365	
County and district clerk	113,800	47,503	1,008	
Justice of the peace	102,807	247,009		
County attorney	54,238	770		
County treasurer	71,177			
County tax collector	98,927	15,476		
County building operations	163,140			
County sheriff	366,447	2,213	1,820	
County agent	65,399			
Trapper	64,800			
Senior citizens	33,000			
Volunteer fire department	83,189			
EMS	230,850	66,656		
Clinic	240,718	65,986		
Interest and debt issuance costs	47,290			
Total governmental activities	3,674,121	603,120	80,116	
Business-type activities:				
Nursing home operations	2,843,708	1,906,376		
Total business-type activities	2,843,708	1,906,376		
Total Primary Government	\$ 6,517,829	\$ 2,509,496	\$ 80,116	\$
Component Units:				
Fire Department	\$ 42,600	\$	\$ 60,795	\$
Senior Citizens	57,626	6,922	38,800	
Total component units	\$ 100,226	\$ 6,922	\$ 99,595	\$

General revenues:
Property taxes
Investment earnings
Other income
Transfers
Total general revenues
Change in net position

Net position - beginning
Prior period adjustments

Net position - ending

The accompanying notes are an integral part of the financial statements.

<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
\$ (504,852)		
(1,125,439)		
(73,253)		
(65,289)		
144,202		
(53,468)		
(71,177)		
(83,451)		
(163,140)		
(362,414)		
(65,399)		
(64,800)		
(33,000)		
(83,189)		
(164,194)		
(174,732)		
(47,290)		
<u>(2,990,885)</u>		
	\$ (937,332)	
	<u>(937,332)</u>	
<u>(2,990,885)</u>	<u>(937,332)</u>	
		\$ 18,195
		<u>(11,904)</u>
		<u>6,291</u>
3,412,247		
21,524		16
59,597		
<u>(586,389)</u>	<u>586,389</u>	
<u>2,906,979</u>	<u>586,389</u>	<u>16</u>
(83,906)	(350,943)	6,307
9,578,830	2,223,384	344,804
	<u>(44,142)</u>	
<u>\$ 9,494,924</u>	<u>\$ 1,828,299</u>	<u>\$ 351,111</u>

STERLING COUNTY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

	General Fund	Road & Bridge Fund	Construction Fund
ASSETS			
Cash and cash investments	\$ 1,807,605	\$ 963,043	\$ 54,500
Investments	1,800,000		
Property tax receivable, net	45,698		
Accounts receivable, net	37,441	3,156	
Grant Receivable	29,400		
Accrued interest receivable	6,641		
Prepaid insurance	76,101		
 Total Assets	 \$ 3,802,886	 \$ 966,199	 \$ 54,500
 LIABILITIES			
Liabilities:			
Accounts payable	\$ 25,707	\$ 695	
Due to state	42,090		
Total liabilities	67,797	695	
 DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property tax	45,699		
Total deferred inflows of resources	45,699		
 FUND BALANCE			
Nonspendable for prepaids	76,101		
Restricted:			
Special revenue		965,504	
Debt service			
Capital construction			54,500
Unassigned	3,613,289		
Total fund balance	3,689,390	965,504	54,500
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 \$ 3,802,886	 \$ 966,199	 \$ 54,500

The accompanying notes are an integral part of the financial statements.

<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 154,945	\$ 211,492	\$ 3,191,585
	320,000	2,120,000
11,859		57,557
		40,597
		29,400
	403	7,044
		76,101
<u>166,804</u>	<u>531,895</u>	<u>5,522,284</u>

\$ 4,629	\$	\$ 31,031
		42,090
<u>4,629</u>		<u>73,121</u>

<u>11,859</u>		<u>57,558</u>
<u>11,859</u>		<u>57,558</u>

		76,101
	531,895	1,497,399
150,316		150,316
		54,500
		3,613,289
<u>150,316</u>	<u>531,895</u>	<u>5,391,605</u>

<u>166,804</u>	<u>531,895</u>	<u>5,522,284</u>
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STERLING COUNTY, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Total fund balances - governmental funds	\$	5,391,605
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds balance sheet. At the beginning of the year, the cost of these assets was \$8,418,407 and the accumulated depreciation was \$2,325,321.		6,093,086
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in statement of net position.		133,806
Disposition of capital assets reduces net position; however these are not recorded in the fund financial statements.		(36,269)
Depreciation expense decreases net position, but is not recorded in the fund financial statements.		(407,128)
Long term debt is not due and payable in the current period and, therefore, it is not reported in governmental funds. Long term debt is recognized in the government-wide statements which decreases net position.		(2,235,000)
Deferred revenue are recorded in the fund financial statements, but the revenue is recognized in the governmental-wide financial statements.		57,558
Included on the government-wide financial statements is the recognition of the County's proportionate share of the net pension asset of \$247,647, and a deferred outflow of resources of \$356,776, and a deferred inflow of \$107,157. The net effect is to increase net position.		<u>497,266</u>
Net position of governmental activities - statement of net position	\$	<u><u>9,494,924</u></u>

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Road & Bridge Fund	Construction Fund
REVENUES			
Property taxes	\$ 2,302,070	\$ 311,611	\$
Licenses and permits		111,161	
Fees	107,304	1,111	
Fines and forfeitures	214,956		
Clinic revenue	65,986		
Investment earnings	16,045	2,575	476
Rental revenues	2,400		
Intergovernmental	70,851		
EMS revenue	66,656		
Miscellaneous	59,346	36,520	
Total revenues	2,905,614	462,978	476
EXPENDITURES			
Current:			
General government	465,666		
Road and bridge		439,944	540,612
County judge	88,433		
County and district clerk	106,258		
Justice of the peace	95,195		
County attorney	50,118		
County treasurer	66,562		
County tax collector	92,650		
County building operations	163,140		
County sheriff	329,401		
County agent	58,964		
Trapper	64,800		
Senior citizens	33,000		
Volunteer fire department	50,000		
Clinic	220,946		
EMS	190,115		
Capital outlay	133,806		
Debt service			
Total expenditures	2,209,054	439,944	540,612
Excess (deficiency) of revenues over expenditures	696,560	23,034	(540,136)
OTHER FINANCING SOURCES (USES)			
Transfers out	(586,389)		
Total other financing sources (uses)	(586,389)		
Net Change in Fund Balance	110,171	23,034	(540,136)
Fund Balance - Beginning	3,579,219	942,470	594,636
Fund Balance - Ending	\$ 3,689,390	\$ 965,504	\$ 54,500

The accompanying notes are an integral part of the financial statements.

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 768,453	\$ 28,110	\$ 3,410,244
		111,161
	33,546	141,961
		214,956
		65,986
190	2,238	21,524
		2,400
	9,265	80,116
		66,656
		95,866
<u>768,643</u>	<u>73,159</u>	<u>4,210,870</u>
	59,572	525,238
		980,556
		88,433
		106,258
		95,195
		50,118
		66,562
		92,650
		163,140
		329,401
		58,964
		64,800
		33,000
		50,000
		220,946
		190,115
		133,806
<u>767,290</u>		<u>767,290</u>
<u>767,290</u>	<u>59,572</u>	<u>4,016,472</u>
<u>1,353</u>	<u>13,587</u>	<u>194,398</u>
		(586,389)
		(586,389)
1,353	13,587	(391,991)
148,963	518,308	5,783,596
\$ <u>150,316</u>	\$ <u>531,895</u>	\$ <u>5,391,605</u>

STERLING COUNTY, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Net change in fund balance - governmental funds	\$	(391,991)
<p>Amounts reported for governmental activities in the statement of activities (SOA) are different because:</p>		
<p>Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in statement of net position.</p>		133,806
<p>Depreciation expense is not reflected in the governmental funds, but is recorded in the government-wide financial statements as an expense and an increase to accumulated depreciation. The net effect of the current year depreciation expense of \$407,128 is to decrease net position.</p>		(407,128)
<p>The disposition of capital assets is not reflected in the governmental funds, but is recorded in the government-wide financial statements as a gain (loss) on the disposition of capital assets. The net effect of the current year capital dispositions is to decrease net position.</p>		(36,269)
<p>The current year issuance of long term debt provides current financial resources to governmental funds, while repayment of the principal of long term debt consumes the current financial resources of governmental funds. The net effect of recognizing current issuance and payments on long term debt in the government-wide financial statements is a net increase to net position of \$720,000.</p>		720,000
<p>Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the governmental funds. The current year adjustment to revenue recognized in the government-wide financial statements is \$2,003. This results in a increase in net position</p>		2,003
<p>Certain expenditures for pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. The County's share of the unrecognized deferred inflows and outflows for TCDRS as of the measurement date must be amortized and the County's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$104,327. The net effect is a decrease in net position.</p>		(104,327)
Net position of governmental activities - statement of net position	\$	<u><u>(83,906)</u></u>

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

SEPTEMBER 30, 2017

	<u>Nursing Home</u>
ASSETS:	
Current Assets:	
Cash and cash investments	\$ 405,542
Accounts receivable, net	90,851
Prepaid expense	<u>95,698</u>
Total Current Assets	<u>592,091</u>
Noncurrent Assets:	
Depreciable capital assets, net	789,166
Net pension asset	<u>293,067</u>
Total Noncurrent Assets	<u>1,082,233</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>422,209</u>
Deferred outflows - pension related	
Total Assets and Deferred Outflows of Resources	<u>2,096,533</u>
LIABILITIES:	
Accounts payable	57,727
Accrued payroll expenses	70,772
Due to others	<u>12,924</u>
Total Liabilities	<u>141,423</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension related	<u>126,811</u>
NET POSITION:	
Net investment in capital assets	789,166
Unrestricted	<u>1,039,133</u>
Total Net Position	<u>\$ 1,828,299</u>

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUND
 YEAR ENDED SEPTEMBER 30, 2017

	Nursing Home
OPERATING REVENUE:	
Resident revenue	\$ 1,903,668
Donations	2,708
Total Operating Revenue	1,906,376
OPERATING EXPENSES:	
Nursing	939,318
Medical supplies	87,493
Consultants and management fees	216,445
Activities	25,194
Medical records	35,935
Dietary	237,227
Laundry	150,730
Other operating	1,151,366
Total Operating Expenses	2,843,708
Operating Income	(937,332)
NON-OPERATING REVENUE (EXPENSES)	
Transfers in	586,389
Total Non-operating Revenue (Expenses)	586,389
CHANGE IN NET POSITION	(350,943)
NET POSITION - BEGINNING	2,223,384
Prior period Adjustment	(44,142)
NET POSITION - ENDING	\$ 1,828,299

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2017

	<u>Nursing Home</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from resident services	\$ 2,030,018
Receipts from state UPL/MPA program	169,067
Payments to employees and related taxes and benefits	(1,617,113)
Payments to consultants and management company	(496,579)
Payments to suppliers	(114,402)
Payments to others	(308,851)
Net cash provided (used) by operating activities	<u>(337,860)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers in	<u>586,389</u>
Net cash provided (used) by noncapital financing activities	<u>586,389</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	<u>(38,465)</u>
Net cash provided (used) by capital and related financing activities	<u>(38,465)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net cash provided (used) by investing activities	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	210,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>195,478</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 405,542</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (937,332)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	75,393
(Increase) decrease in accounts receivable	126,174
(Increase) decrease in due from governmental entities	249,075
(Increase) decrease in prepaid assets	17,381
(Increase) decrease in pension related assets	123,462
Increase (decrease) in accounts payable	8,429
Increase (decrease) in accrued payroll	2,090
Increase (Decrease) in due to others	(2,532)
Net cash used by operating activities	<u>\$ (337,860)</u>

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS

BALANCE SHEET - FIDUCIARY FUNDS

SEPTEMBER 30, 2017

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ <u>90,184</u>
Total Assets	\$ <u><u>90,184</u></u>
LIABILITIES	
Due to Others	\$ <u>90,184</u>
Total Liabilities	\$ <u><u>90,184</u></u>

The accompanying notes are an integral part of the financial statements.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 1: REPORTING ENTITY

Primary Government

Sterling County, Texas (the County) is a public corporation and political subdivision of the State of Texas. The Commissioners Court, which is made up of four Commissioners and the County Judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: general government, road and bridge, County judge, County and District clerk, Justice of the Peace, County attorney, County treasurer, County tax collector, County building operations, nursing home operations, County sheriff, County agent, and trapper.

The accompanying basic financial statements present the government and its discretely presented component units defined according to criteria in GASB Statement No. 14, *The Financial Reporting Entity*.

Discretely Presented Component Units

The Senior Citizens Center is a non-profit entity which is subsidized by the County with operational funds and is utilizing county owned buildings to conduct services to the County. The Center is governed by a separate board which is not appointed by the County Commissioners but reports monthly to them.

The Sterling Volunteer Fire Department was organized in 1963 and is governed by a nine-person Board of Directors. The Fire Department is subsidized annually by the County. The principal functions of the Fire Department are to save lives and to protect property endangered by fire or other disasters in Sterling County, Texas.

NOTE 2: GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

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

Separate financial statements are provided for proprietary and governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in another fund.

Road & Bridge Fund - The Road & Bridge Fund accounts for financial resources restricted for the purpose of repairing roads and bridges and related expenditures.

Project Construction Fund - The Project Construction Fund is used to record the debt proceeds and the expenditures related to the major construction project of the County.

Debt Service Fund - The Debt Service Fund is used to collect the property taxes to fund the County's debt payments and the expenditures related to debt service.

The County reports the following major proprietary fund:

Nursing Home Fund - This fund is used to account for the activities of the County's Nursing Home which is operated in a manner similar to a private business enterprise. The Nursing Home is supported by resident charges, state revenues, and subsidies from the County when needed to cover operational expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - continued

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenue. Likewise, general revenues include all taxes.

When the County incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the County's policy to use restricted resources first, then unrestricted resources.

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations. Formal budgetary accounting is not required for fiduciary funds. Since by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide statements.

Budget Policies

The County follows the following procedures in establishing budgetary data reflected in the financial statements:

Public hearings are conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through adoption of an order by the Commissioners' Court. Budgets are adopted for all funds, and budget amendments are approved by the Commissioners' Court. All appropriations lapse at year end.

Property Taxes

Property tax revenues are considered available when collected within the current period. The County levies property taxes prior to September 30 and become due on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The County is permitted by the Municipal Finance Law of the State to levy taxes up to \$1.20 per \$100 of appraised valuation for general services, permanent improvements, lateral road, and jury fund purposes other than the payment of principal established by the Attorney General of the State of Texas. The tax rate for the year ended September 30, 2017 was \$.527821 per \$100 valuation.

Allowance for uncollectible tax receivables within the General Fund and Debt Service Fund is based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - continued

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (e.g., roads and bridges) are reported in the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The County capitalizes all capital outlay expenditures over \$5,000.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	50
Furniture and equipment	5-15
Infrastructure	20

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has deferred outflows of resources for the differences between projected and actual earnings for its pension plan and contributions made to the pension plan after the measurement date, but before the end of the fiscal year.

In addition to liabilities, the statement of net position will 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. In the government-wide financial statements, the County has deferred inflows of resources for the differences between expected and actual experience related to the valuation of the County's net pension asset. In the governmental fund financial statements, the County has deferred inflows of resources related to the timing of the receipts from property taxes.

Long-Term Debt

In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities. The long-term debt of the County includes bonds payable.

Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Transfers to component units are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - continued

Statement of Cash Flows

For purposes of the statement of cash flows, all cash and cash investments with a maturity of three months or less are considered to be cash equivalents.

Use of Estimates

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

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The County had \$76,101 classified as nonspendable at September 30, 2017.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Federal or state funds are restricted for use only for a specific use. The County had \$1,020,004 restricted for road and bridge repairs, \$531,895 for special revenue projects, and \$150,316 for future debt service requirements.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the County Commissioners' intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners or through the Commissioners delegating this responsibility to management through the budgetary process. The County has no funds classified as assigned at September 30, 2017.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The County would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION - continued

Pensions

The fiduciary net position of the Texas County & District Retirement System (TCDRS) 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 asset, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCDRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable accordance with the benefit terms. Investments are reported at fair value.

NOTE 4: DEPOSITS AND INVESTMENTS

The County's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County's agent bank approved pledged securities in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

Primary Government - At September 30, 2017, the carrying amount of the County's deposits and certificates of deposit was \$5,717,127. The bank balance at September 30, 2017, was \$5,951,381. The County's cash deposits and certificates of deposit at September 30, 2017, were entirely covered by FDIC insurance and by pledged collateral held by the County's agent bank in the County's name.

Investments

The County is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owed by the entity.

Statutes authorize the County to invest in 1) obligations of the U.S. Treasury or the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) money market savings accounts, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) common trust funds. The County is required by Governmental Code Chapter 2256, Public Funds Investment Act (PFIA), to adopt, implement, and publicize an investment policy. That policy must address the following areas: 1) safety or 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 quality and capabilities, and 9) bid solicitation preferences for certificates of deposit.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4: DEPOSITS AND INVESTMENTS - continued

The County's investments at September 30, 2017 are as follows:

	Cost Basis	Fair Value
Governmental Activities:		
Certificates of deposit	\$ 2,100,000	\$ 2,100,000
	2,100,000	2,100,000
Special Revenue Funds		
Certificates of deposit	20,000	20,000
	20,000	20,000
Total investments	\$ 2,120,000	\$ 2,120,000

Analysis of Specific Deposit and Investment Risk

Interest rate risk: In accordance with its investment policy, the county manages its exposure to declines in fair values by limiting the weighted average maturity portfolio to 180 days. The maximum allowable stated maturity of any individual investment owned by the county shall not exceed three years from the time of purchase. The commissioners may specifically authorize a longer maturity for a given investment within legal limits.

Credit risk: State law and County policy limit investments in public funds investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2017, the County had \$2,120,000 in investments.

Concentration of credit risk: The County's investment policy does not limit investments in any one issuer except that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk: Custodial credit risk is the risk that deposits are exposed to if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the County's name. At September 30, 2017, the County was not exposed to custodial credit risk.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
PRIMARY GOVERNMENT				
<u>Governmental Activities:</u>				
Capital assets not being depreciated				
Land	\$ 6,238	\$	\$	\$ 6,238
Construction in progress	77,247			77,247
Total capital assets not being depreciated	83,485			83,485
Capital assets being depreciated				
Buildings and improvements	1,503,985			1,503,985
Furniture and equipment	1,904,540	84,242		1,988,782
Vehicles	993,761	49,564	106,924	936,401
Infrastructure	3,932,636			3,932,636
Total capital assets being depreciated	8,334,922	133,806	106,924	8,361,804
Less accumulated depreciation for:				
Buildings and improvements	(651,914)	(51,883)		(703,797)
Furniture and equipment	(804,169)	(154,236)		(958,405)
Vehicles	(530,954)	(89,522)	70,655	(549,821)
Infrastructure	(338,284)	(111,487)		(449,771)
Total accumulated depreciation	(2,325,321)	(407,128)	70,655	(2,661,794)
Governmental activities capital assets, net	\$ 6,093,086	\$ (273,322)	\$ 36,269	\$ 5,783,495

Depreciation was charged to functions as follows:

Road and bridge	\$ 237,772
County agent	5,830
County sheriff	20,439
General government	74,572
Volunteer fire department	33,189
EMS	35,326
Total depreciation expense - governmental activities	\$ 407,128

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business Type Activities</u>				
Capital assets being depreciated				
Buildings and improvements	\$ 1,708,298	\$ 29,862	\$	\$ 1,738,160
Furniture and equipment	419,475	8,602		428,077
Total capital assets being depreciated	2,127,773	38,464		2,166,237
Less accumulated depreciation for:				
Buildings and improvements	(983,054)	(33,412)		(1,016,466)
Furniture and equipment	(318,625)	(41,980)		(360,605)
Total accumulated depreciation	(1,301,679)	(75,392)		(1,377,071)
Business type activities capital assets, net	\$ 826,094	\$ (36,928)	\$	\$ 789,166

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5: CAPITAL ASSETS – continued

DISCRETELY PRESENTED COMPONENT UNITS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Buildings and improvements	\$ 391,619	\$	\$	\$ 391,619
Equipment and vehicles	208,189	29,376		237,565
Total capital assets being depreciated	599,808	29,376		629,184
Less accumulated depreciation for:				
Buildings and improvements	(162,095)	(10,164)		(172,259)
Equipment and vehicles	(135,322)	(16,719)		(152,041)
Total accumulated depreciation	(297,417)	(26,883)		(324,300)
Capital assets, net	\$ 302,391	\$ 2,493	\$	\$ 304,884

Depreciation was charged to functions as follows:

Sterling County Senior Center	\$ 11,468
Sterling Volunteer Fire Department	15,415
	<u>\$ 26,883</u>

NOTE 6: LONG TERM DEBT

A summary of changes in long term debt are as follows:

	Balance October 1, 2016	Additions	Deletions	Balance September 30, 2017
Tax Notes				
Series 2014	\$ 2,955,000	\$	\$ 720,000	\$ 2,235,000
Total Long Term Debt	<u>2,955,000</u>	<u>-</u>	<u>720,000</u>	<u>2,235,000</u>

Current Maturities of Long Term Debt are as follows:

Fiscal Year	Principal	Interest	Total
2018	730,000	35,343	765,343
2019	745,000	21,404	766,404
2020	760,000	7,182	767,182
	<u>\$ 2,235,000</u>	<u>63,929</u>	<u>2,298,929</u>

Long term debt at September 30, 2017 is comprised of one note issue of \$5.1 million dated May 14, 2014. These note funds will be used for road construction. This note is due in annual installments beginning February 15, 2015. Interest is 1.89% and is paid semi-annually on February 15th and August 15th of each year.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 7: RETIREMENT PLAN

Plan Description

The County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (the TCDRS). The Commissioners are responsible for the administration of the statewide agent multi-employer public employee retirement system consisting of 738 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided

The plan provisions are adopted by the governing body of the employer, within the options available in the state statutes governing the TCDRS (TCDRS Act). Members employed by Sterling County can retire at age 60 and above with eight or more years of service, with 30 years of service, regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of employment but must leave their accumulated contributions in the plan to receive any employer-financed benefits.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. There are no automatic post-employment benefit changes; including automatic COLA's. Ad hoc post-employment benefit changes, including ad hoc COLA's, can be granted by the County Commissioners within certain guidelines.

Contributions

The County has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the county is actuarially determined annually. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

The rate the County contributed for the months of the accounting year in 2016 and 2017 were 7.18% and 8.26% respectively. The deposit rate payable by the employee members for the calendar year 2016 and 2017 is the rate of 7.00% as adopted by the governing body of the County. The total retirement contributions made by the County for the fiscal year ended September 30, 2017 were \$194,381.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2017

NOTE 7: RETIREMENT PLAN - continued

Actuarial Assumptions

The total pension asset at December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	0 Years (based on contribution rate calculated in 12/31/16 valuation)
Asset Valuation Method	5 year smoothed value
Discount Rate	8.10%
Long-term expected Investment Rate of Return	8.10%
Salary increases	3.5%

The actuarial assumptions that determined the total pension liability as of December 31, 2016 were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2012. The mortality assumptions were updated in 2015, all other assumptions and methods are the same as used in the prior valuation.

Discount Rate

The discount rate used to measure the total pension asset was 8.10%. There was no change in the discount rate since the previous year.

In order to determine the discount rate to be used, we have used an alternative method to determine the sufficiency of the fiduciary net position in all future years. This alternative method reflects the funding requirements under our funding policy and the legal requirements under the TCDRS Act:

- 1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20 – year closed layered periods.
- 2) Under the TCRDS Act, the employer is legally required to make the contribution specified in the funding policy
- 3) The employer’s assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
- 4) Any increased cost due to the adoption of a cost-of-living adjustment is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future year, the discount rate for purposes of calculating the total pension liability and net pension liability is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses. Therefore, we have used a discount rate of 8.10%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.0%, net of all expenses, increased by .10% to be gross of administrative expenses.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7: RETIREMENT PLAN - continued

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS's investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Note that the valuation assumptions for long-term expected return is re-assessed at a minimum of every four years, and is based on a 30-year time horizon; the most recent analysis was performed in 2013 based on the period January 1, 2009 to December 31, 2013. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus inflation)
US Equities	Dow Jones US Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities – Developed	MSCI Work Ex USA (net)	10.00%	4.70%
International Equities – Emerging	MSCI EM Standard (net) index	7.00%	5.70%
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REIT's Index + 33% FRSE EPRA/NAREIT Global Rate Estate Index	2.00%	3.85%
Master Limited Partnerships (MLP's)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the County reported a net pension asset of \$540,714 for its proportionate share of the TCDRS's net pension liability measured at December 31, 2016. For the year ended September 30, 2017, the County recognized pension expense of \$423,960.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7: RETIREMENT PLAN - continued

Changes in the net pension asset for the measurement year ended December 31, 2016 are as follows:

Changes in Net Pension Liability/(Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) – (b)
Balance at December 31, 2015	8,139,895	8,548,801	(408,906)
Changes for the year:			
Service Cost	470,366		470,366
Interest on total pension liability	653,432		653,432
Effect of plan changes			
Effect of economic/demographic gains or losses	(306,213)		(306,213)
Effect of assumptions changes or inputs			
Refund of contributions			
Benefit payments	(618,930)	(618,930)	
Administrative expenses		(6,877)	6,877
Member contributions		179,182	(179,182)
Net investment income		633,338	(633,338)
Employer contributions		183,790	(183,790)
Other		(40,040)	40,040
Balances as of December 31, 2016	\$ 8,338,550	\$ 8,879,264	\$ 540,714

Discount Rate Sensitivity Analysis

The following presents the net pension liability/(asset) of the County, calculated using the discount rate of 8.10%, as well as what the County's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.100%)
Total Pension Liability	\$ 9,247,463	\$ 8,338,550	\$ 7,575,206
Fiduciary Net Position	8,879,264	8,879,264	8,879,264
Net Pension Liability/(Asset)	\$ 368,199	\$ (540,714)	\$ (1,304,058)

At December 31, 2016 the County reported its share of the TCDRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience		\$ 233,968
Changes in actuarial assumptions	\$ 34,559	
Difference between projected and actual investment earnings	596,842	
Contributions subsequent to the measurement date	147,584	
Total	\$ 778,985	\$ 233,968

STERLING COUNTY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 7: RETIREMENT PLAN - continued

\$147,584 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2018	\$ 105,994
2019	101,260
2020	180,762
2021	9,417
2022	
Thereafter	
	\$ 397,433

NOTE 8: RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the County purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

NOTE 9: FINANCIAL INSTRUMENTS

The County has estimated that the fair value of all financial instruments (none of which is held for trading purposes) at September 30, 2017, does not differ materially from their aggregate carrying values recorded in the accompanying statement of financial position. The estimate is based on the assumption that fair value approximates carrying values due to short initial maturities. Financial instruments consist of cash, accounts receivables, prepaid expenses, accounts payable, and payroll liabilities.

NOTE 12: PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to beginning net position in the proprietary fund financial statement. The adjustment was to correct the accrual for state payments to the Sterling County Nursing Home. The accrual was based upon information from the state, but the actual amount received in fiscal year 2017 was \$44,142 less than the estimated amount at September 30, 2016. This adjustment decreased the beginning net assets.

REQUIRED SUPPLEMENTARY INFORMATION

STERLING COUNTY, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,301,449	\$ 2,301,449	\$ 2,302,070	\$ 621
Fees	112,700	112,700	107,304	(5,396)
Fines and forfeitures	256,300	256,300	214,956	(41,344)
Clinic revenue	135,000	135,000	65,986	(69,014)
Investment earnings	15,000	15,000	16,045	1,045
Rental revenues	2,400	2,400	2,400	
Intergovernmental	79,444	79,444	70,851	(8,593)
EMS revenue	80,000	80,000	66,656	(13,344)
Miscellaneous	88,441	88,441	59,346	(29,095)
Total Revenues	<u>3,070,734</u>	<u>3,070,734</u>	<u>2,905,614</u>	<u>(165,120)</u>
Expenditures				
Current:				
General government	600,356	576,190	465,666	110,524
County judge	90,235	90,235	88,433	1,802
County and district clerk	107,642	107,642	106,258	1,384
Justice of the peace	96,779	96,779	95,195	1,584
County attorney	61,181	61,181	50,118	11,063
County treasurer	68,200	68,200	66,562	1,638
County tax collector	98,742	98,742	92,650	6,092
County building operations	194,095	175,925	163,140	12,785
County sheriff	332,221	332,221	329,401	2,820
County agent	64,401	64,401	58,964	5,437
Trapper	64,800	64,800	64,800	
Senior citizens	33,000	33,000	33,000	
Volunteer fire department	50,000	50,000	50,000	
Clinic	269,406	269,842	220,946	48,896
EMS	238,965	238,965	190,115	48,850
Capital outlay	70,311	112,211	133,806	(21,595)
Total Expenditures	<u>2,440,334</u>	<u>2,440,334</u>	<u>2,209,054</u>	<u>231,280</u>
Excess (deficiency) of revenues over expenditures	<u>630,400</u>	<u>630,400</u>	<u>696,560</u>	<u>66,160</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(630,400)	(630,400)	(586,389)	44,011
Total other financing sources (uses)	<u>(630,400)</u>	<u>(630,400)</u>	<u>(586,389)</u>	<u>44,011</u>
Net Change in Fund Balance			110,171	110,171
Fund Balance - Beginning	<u>3,579,219</u>	<u>3,579,219</u>	<u>3,579,219</u>	
Fund Balance - Ending	<u>\$ 3,579,219</u>	<u>\$ 3,579,219</u>	<u>\$ 3,689,390</u>	<u>\$ 110,171</u>

STERLING COUNTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL - ROAD & BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Property taxes	\$ 310,736	\$ 310,736	\$ 311,611	\$ 875
Licenses and permits	132,100	132,100	111,161	(20,939)
Fees	2,200	2,200	1,111	(1,089)
Investment earnings	600	600	2,575	1,975
Intergovernmental				
Miscellaneous	40,000	40,000	36,520	(3,480)
Total Revenues	<u>485,636</u>	<u>485,636</u>	<u>462,978</u>	<u>(22,658)</u>
Expenditures				
Commissioner's salary	82,320	82,320	82,320	
Road foreman salary	42,700	42,700	42,700	
Landfill salary	3,890	3,890	3,441	449
Cell phone allowance	1,800	1,800	1,800	
Road salary	68,382	68,382	68,382	
Social security	15,232	15,232	15,196	36
Group hospital insurance	70,000	70,000	66,903	3,097
Retirement	15,908	15,908	15,872	36
Permit and landfill fees	15,000	15,000	10,461	4,539
Fuel and oil	30,000	36,541	36,800	(259)
Supplies	800	950	950	
County barn maintenance	524	524	467	57
Telephone	750	1,640	1,641	(1)
Travel expenses	5,000	5,000	2,933	2,067
Utilities	2,350	2,350	1,761	589
Machine parts and repairs	45,000	45,000	33,930	11,070
Road materials and repairs	60,000	60,000	40,632	19,368
Lateral road funds	6,880	6,880	6,880	
Miscellaneous expense	4,100	3,059	1,359	1,700
Professional fees	15,000	8,460	5,516	2,944
Capital outlay				
Total Expenditures	<u>485,636</u>	<u>485,636</u>	<u>439,944</u>	<u>45,692</u>
Excess (deficiency) of revenues over expenditures			<u>23,034</u>	<u>23,034</u>
OTHER FINANCING SOURCES (USES)				
Transfers out				
Total other financing sources (uses)				
Net Change in Fund Balance			23,034	23,034
Fund Balance - Beginning	<u>942,470</u>	<u>942,470</u>	<u>942,470</u>	
Fund Balance - Ending	<u>\$ 942,470</u>	<u>\$ 942,470</u>	<u>\$ 965,504</u>	<u>\$ 23,034</u>

STERLING COUNTY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years (will ultimately be displayed)
YEARS ENDED DECEMBER 31

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 355,211	\$ 348,418	\$ 470,366
Interest (on the Total Pension Liability)	583,273	623,188	653,432
Changes of benefit terms	-	(70,584)	-
Difference between expected and actual experience	20,568	(89,476)	(306,213)
Change of Assumptions	-	103,678	-
Benefit payments, including refunds of employee contributions	<u>(408,001)</u>	<u>(553,159)</u>	<u>(618,930)</u>
Net Change in Total Pension Liability	551,051	362,065	198,655
Total Pension Liability - Beginning	<u>7,226,779</u>	<u>7,777,830</u>	<u>8,139,895</u>
Total Pension Liability - Ending (a)	<u>\$ 7,777,830</u>	<u>\$ 8,139,895</u>	<u>\$ 8,338,550</u>
 Plan Fiduciary Net Position			
Contributions - Employer	192,443	186,747	183,790
Contributions - Employee	164,281	172,458	179,182
Net Investment Income	568,189	(140,407)	633,338
Benefit payments, including refunds of employee contributions	(408,001)	(553,159)	(618,930)
Administrative Expense	(6,635)	(6,257)	(6,877)
Other	<u>(48,015)</u>	<u>49,291</u>	<u>(40,041)</u>
Net Change in Plan Fiduciary Net Position	462,262	(291,327)	330,462
Plan Fiduciary Net Position - Beginning	<u>8,377,866</u>	<u>8,840,128</u>	<u>8,548,802</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 8,840,128</u>	<u>\$ 8,548,801</u>	<u>\$ 8,879,264</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ (1,062,298)</u>	<u>\$ (408,906)</u>	<u>\$ (540,714)</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	113.66%	105.02%	106.48%
 Covered Employee Payroll	\$ 2,346,870	\$ 2,463,681	\$ 2,559,748
 Net Pension Liability as a Percentage of Covered Employee Payroll	-45.26%	-16.60%	-21.12%

STERLING COUNTY, TEXAS
Schedule of Employer Contributions
Texas County & District Retirement System
For Fiscal Year 2017

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
2007	190,520	190,520	-	1,526,603	12.5%
2008	206,915	406,915	(200,000)	1,717,137	23.7%
2009	216,844	716,844	(500,000)	1,816,118	39.5%
2010	216,211	216,211	-	1,930,456	11.2%
2011	161,830	177,057	(15,227)	1,770,565	10.0%
2012	162,293	182,969	(20,676)	1,829,690	10.0%
2013	165,898	171,022	(5,124)	1,998,768	8.6%
2014	192,443	192,443	-	2,346,870	8.2%
2015	186,747	186,747	-	2,463,681	7.6%
2016	183,790	183,790	-	2,559,748	7.2%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level of percentage of payroll, closed
Remaining Amortization Period	0.0 years (based on contribution rate calculated at 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions

OTHER SUPPLEMENTARY INFORMATION

STERLING COUNTY, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	Jury Fund	Records Management	Courthouse Security	Technology Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash investments	\$ 91,420	\$ 22,751	\$ 54,360	\$ 7,864
Investments	300,000		20,000	
Accrued interest receivable	<u>339</u>		<u>64</u>	
Total Assets	<u>\$ 391,759</u>	<u>\$ 22,751</u>	<u>\$ 74,424</u>	<u>\$ 7,864</u>
 LIABILITIES				
Accrued interest payable	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>
 DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and deferred inflows of resources	<u> </u>	<u> </u>	<u> </u>	<u> </u>
 FUND BALANCE				
Restricted	391,759	22,751	74,424	7,864
Unassigned	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u>391,759</u>	<u>22,751</u>	<u>74,424</u>	<u>7,864</u>
Total Liabilities and Fund Balance	<u>\$ 391,759</u>	<u>\$ 22,751</u>	<u>\$ 74,424</u>	<u>\$ 7,864</u>

Court Technology	District Records Archive	Sheriff Special Revenue Fund	Clerk Records Archive	Total Nonmajor Governmental Funds
\$ 3,588	\$ 1,562	\$ 3,958	\$ 25,989	\$ 211,492
				320,000
				403
<u>\$ 3,588</u>	<u>\$ 1,562</u>	<u>\$ 3,958</u>	<u>\$ 25,989</u>	<u>\$ 531,895</u>
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
3,588	1,562	3,958	25,989	531,895
<u>3,588</u>	<u>1,562</u>	<u>3,958</u>	<u>25,989</u>	<u>531,895</u>
<u>\$ 3,588</u>	<u>\$ 1,562</u>	<u>\$ 3,958</u>	<u>\$ 25,989</u>	<u>\$ 531,895</u>

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Jury Fund	Records Management	Courthouse Security	Technology Fund
REVENUES:				
Property taxes	\$ 28,110	\$	\$	\$
Fees	2,325	5,815	9,837	9,023
Intergovernmental	6,437	1,008		
Investment earnings	1,881	54	230	41
Total Revenues	38,753	6,877	10,067	9,064
EXPENDITURES:				
Current:				
Salaries and benefits	3,005			
Other operating	26,608	4,862	849	21,576
Total Expenditures	29,613	4,862	849	21,576
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	9,140	2,015	9,218	(12,512)
OTHER FINANCING SOURCES:				
Transfers from other funds				
Total Other Financing Sources				
NET CHANGE IN FUND BALANCE	9,140	2,015	9,218	(12,512)
FUND BALANCE - BEGINNING	382,619	20,736	65,206	20,376
FUND BALANCE - ENDING	\$ 391,759	\$ 22,751	\$ 74,424	\$ 7,864

Court Technology	District Records Archive	Sheriff Special Revenue Fund	Clerk Records Archive	Total Nonmajor Governmental Funds
\$	\$	\$	\$	\$
436	240		5,870	28,110
		1,820		33,546
9	1		22	9,265
<u>445</u>	<u>241</u>	<u>1,820</u>	<u>5,892</u>	<u>2,238</u>
		2,672		3,005
				<u>56,567</u>
		2,672		
				<u>59,572</u>
445	241	(852)	5,892	13,587
<u>445</u>	<u>241</u>	<u>(852)</u>	<u>5,892</u>	<u>13,587</u>
3,143	1,321	4,810	20,097	518,308
<u>3,588</u>	<u>1,562</u>	<u>3,958</u>	<u>25,989</u>	<u>531,895</u>

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS

SEPTEMBER 30, 2017

	<u>Sterling Volunteer Fire Department</u>	<u>Sterling County Senior Citizens</u>	<u>Total Component Units</u>
ASSETS			
Current:			
Cash and investments	\$ 40,952	\$ 6,281	\$ 47,233
Total current assets	<u>40,952</u>	<u>6,281</u>	<u>47,233</u>
Noncurrent assets:			
Property and equipment, net	<u>101,688</u>	<u>203,196</u>	<u>304,884</u>
Total noncurrent assets	<u>101,688</u>	<u>203,196</u>	<u>304,884</u>
TOTAL ASSETS	<u>142,640</u>	<u>209,477</u>	<u>352,117</u>
LIABILITIES			
Accounts Payable	<u>1,006</u>		<u>1,006</u>
Total Liabilities	<u>1,006</u>		<u>1,006</u>
NET POSITION			
Net investment in capital assets	101,688	203,196	304,884
Unrestricted	<u>39,946</u>	<u>6,281</u>	<u>46,227</u>
TOTAL NET POSITION	<u>\$ 141,634</u>	<u>\$ 209,477</u>	<u>\$ 351,111</u>

STERLING COUNTY, TEXAS

**COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Sterling Volunteer Fire Department	Sterling County Senior Citizens	Total Component Units
REVENUES:			
Fees and charges for services	\$	\$ 6,922	\$ 6,922
Donations	10,795	5,200	15,995
Intergovernmental	50,000	33,600	83,600
Investment earnings	16		16
Miscellaneous			
	60,811	45,722	106,533
EXPENDITURES:			
Current:			
Salaries and benefits		24,675	24,675
Occupancy costs	4,841	8,113	12,954
Repairs and supplies	11,720	9,577	21,297
Depreciation	15,415	11,468	26,883
Other operating	10,624	3,793	14,417
	42,600	57,626	100,226
Total Expenditures			
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES			
	18,211	(11,904)	6,307
NET POSITION - BEGINNING OF YEAR			
	123,423	221,381	344,804
NET POSITION - END OF YEAR			
	\$ 141,634	\$ 209,477	\$ 351,111

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Commissioner's Court
Sterling County, Texas

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sterling County, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Sterling County, Texas' basic financial statements, and have issued our report thereon dated March 9, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sterling County, Texas' 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 County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Sterling County, Texas' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sterling County, Texas' financial statements are free from 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roberts + McGee, CPA
Roberts & McGee, CPA

Abilene, Texas,
March 9, 2018