

**STERLING COUNTY,
TEXAS**

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S
REPORT

SEPTEMBER 30, 2018

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:

Report on the Financial Statements

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, 2018, 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, 2018, 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 3-9 and 37-40 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 41-46 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 February 12, 2019, 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,
February 12, 2019

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

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, 2018.

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 \$11,544,554 (*net position*). Of this amount, \$5,319,968 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens. \$4,656,529 of the County's equity is invested in capital assets, net of related debt; and \$1,568,057 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 \$1,578,481 (*net position*). Of this amount, \$842,418 (*unrestricted*) may be used to meet the government's ongoing obligations. \$736,063 of the County's equity is invested in capital assets.
- The net position (*equity*) of the governmental activities of the County increased by \$471,149 during the 2018 fiscal year, and net position (*equity*) of the business-type activities of the County decreased by \$249,818 during the 2018 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 \$3,822,261. This fund balance reflects an increase of \$208,972 over the prior year unassigned fund balance.
- In the road & bridge fund, the fund balance increased \$28,308 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 \$249,818.

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 10-11 of this report.

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

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 37-38.

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, 2018**

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 22-36 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 41-44 of this report. Combining financial statements for the aggregated component units are also provided as other supplemental information and can be found on pages 45-46.

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 \$9,966,073 in the governmental activities and \$1,578,481 in the business-type activities at the close of the most recent fiscal year.

\$4,656,529 of Sterling County's total net position (40 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	
	2018	2017
Current assets	\$ 5,621,331	\$ 5,522,284
Non-current assets	5,999,301	6,031,142
Total Assets	11,620,632	11,553,426
Deferred Outflows - Pension	261,596	356,776
Total Assets and Deferred Outflows	11,882,228	11,910,202
Current liabilities	833,721	803,121
Long-term liabilities	760,000	1,505,000
Total Liabilities	1,593,721	2,308,121
Deferred Inflows - Pension	322,434	107,157
Total Liabilities and Deferred Outflows	1,916,155	2,415,278
Net investment in capital assets	3,920,466	3,548,495
Restricted	1,568,057	1,702,215
Unrestricted	4,477,550	4,244,214
Total Net Position	\$ 9,966,073	\$ 9,494,924

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

	<u>Business-Type Activities</u>	
	<u>2018</u>	<u>2017</u>
Current assets	\$ 368,551	\$ 592,091
Non-current assets	1,415,143	1,082,233
Total Assets	<u>1,783,694</u>	<u>1,674,324</u>
Deferred Outflows - Pension	309,573	422,209
Total Assets and Deferred Outflows	<u>2,093,267</u>	<u>2,096,533</u>
Current liabilities	133,214	141,423
Total Liabilities	<u>133,214</u>	<u>141,423</u>
Deferred Inflows - Pension	381,572	126,811
Total Liabilities and Deferred Outflows	<u>514,786</u>	<u>268,234</u>
Net investment in capital assets	736,063	789,166
Unrestricted	842,418	1,039,133
Total Net Position	<u>\$ 1,578,481</u>	<u>\$ 1,828,299</u>

Sterling County's Changes in Net Position

Charges for services	\$ 715,194	\$ 603,120
Operating grants & contributions	69,479	80,116
General Revenues		
Property taxes	3,598,112	3,412,247
Investment earnings	53,078	21,524
Other income	116,680	59,597
Transfers	(566,839)	(586,389)
Total Revenues	<u>3,985,704</u>	<u>3,590,215</u>
Expenses		
General government	583,757	605,732
Road and bridge	881,256	1,237,711
County judge	88,595	94,896
County and district clerk	129,746	113,800
Justice of the peace	97,920	102,807
County attorney	87,740	54,238
County treasurer	65,765	71,177
County tax collector	96,704	98,927
County building operations	246,715	163,140
County sheriff	341,404	366,447
County agent	65,114	65,399
Trapper	73,800	64,800
Senior citizens	37,400	33,000
Volunteer fire department	77,113	83,189
EMS	337,251	240,718
Clinic	270,228	230,850
Interest and debt issuance costs	34,047	47,290
Total expenses	<u>3,514,555</u>	<u>3,674,121</u>
Change in Net Position	471,149	(83,906)
Beginning Net Position	9,494,924	9,578,830
Ending Net Position	<u>\$ 9,966,073</u>	<u>\$ 9,494,924</u>

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

	Business-Type Activities	
	2018	2017
Revenues:		
Program Revenues:		
Charges for services	\$ 1,570,621	\$ 1,906,376
Operating grants & contributions	105,382	
General Revenues		
Other revenue	7,123	
Transfers	566,839	586,389
Total Revenues	2,249,965	2,492,765
Expenses		
Nursing home	2,499,783	2,843,708
Total expenses	2,499,783	2,843,708
Change in Net Position	(249,818)	(350,943)
Beginning Net Position	1,828,299	2,223,384
Prior Period Adjustments		(44,142)
Ending Net Position	\$ 1,578,481	\$ 1,828,299

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 \$3,892,454, which is generally unassigned and available for spending at the County's discretion. The road and bridge fund reported an ending fund balance of \$994,915 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 2018, \$54,500 was spent on the construction project. This leaves no remaining funds 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 \$194,936 less than the final budgeted amounts, and actual revenues were \$73,187 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 \$37,537 less than the final budgeted amounts, and actual revenues were \$9,229 less than was budgeted.

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets Sterling County's investment in capital assets for its governmental activities amounts to \$5,425,466 (net of accumulated depreciation), and the investment in capital assets for its business-type activities amounts to \$736,063 (net of accumulated depreciation) as of September 30, 2018. This investment in capital assets includes land, buildings and improvements, infrastructure, and equipment.

**Sterling County's Capital Assets
(net of depreciation)**

	Governmental Activities	
	2018	2017
Land	\$ 6,238	\$ 6,238
Construction in progress		77,247
Buildings and improvements	749,746	800,188
Infrastructure	3,444,762	3,482,865
Equipment	911,792	1,030,377
Vehicles	312,928	386,580
Total	\$ 5,425,466	\$ 5,783,495

**Sterling County's Capital Assets
(net of depreciation)**

	Business-Type Activities	
	2018	2017
Buildings and improvements	\$ 683,014	\$ 721,694
Furniture and equipment	53,049	67,472
Total	\$ 736,063	\$ 789,166

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, 2018, the County had long term liabilities as follows:

Governmental Activities:

Tax Notes – Series 2014	\$ 1,505,000
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Additional information on Sterling County's long-term debt can be found in Note 6 on page 31 of this report.

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2018**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sterling County adopted a 2018 property tax rate effective for its 2019 fiscal year of .526117 per \$100 property valuation. This is compared to the 2017 year tax rate of .551784 per \$100 property valuation. The 2018 tax rate is composed of .436291 for maintenance and operations and .089826 for I&S.
- The 2019 fiscal year budget was approved by the County in September of 2018.

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, 2018

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
ASSETS				
Current:				
Cash and cash investments	\$ 3,306,909	\$ 186,375	\$ 3,493,284	\$ 49,621
Investments	2,120,000		2,120,000	
Property tax receivable, net	43,766		43,766	
Accounts receivable, net	68,419	116,090	184,509	
Intergovernmental				
Accrued interest receivable	7,044		7,044	
Prepaid insurance	75,193	66,086	141,279	
Total current assets	<u>5,621,331</u>	<u>368,551</u>	<u>5,989,882</u>	<u>49,621</u>
Non-current:				
Capital assets				
Non-depreciable capital assets	6,238		6,238	
Depreciable capital assets, net	5,419,228	736,063	6,155,291	298,101
Net pension asset	573,835	679,080	1,252,915	
Total non-current assets	<u>5,999,301</u>	<u>1,415,143</u>	<u>7,414,444</u>	<u>298,101</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	261,596	309,573	571,169	
Total Assets and Deferred Outflows of Resources	<u>11,882,228</u>	<u>2,093,267</u>	<u>13,975,495</u>	<u>347,722</u>
LIABILITIES				
Current:				
Accounts payable	36,208	55,046	91,254	519
Accrued payroll expenses		73,601	73,601	
Due to other governmental entities	52,513		52,513	
Due to others		4,567	4,567	
Long term liabilities:				
Due within one year	745,000		745,000	
Due after one year:				
Tax notes	760,000		760,000	
Total Liabilities	<u>1,593,721</u>	<u>133,214</u>	<u>1,726,935</u>	<u>519</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	322,434	381,572	704,006	
NET POSITION				
Net investment in capital assets	3,920,466	736,063	4,656,529	298,101
Restricted	1,568,057		1,568,057	
Unrestricted	4,477,550	842,418	5,319,968	49,102
Total Net Position	<u>\$ 9,966,073</u>	<u>\$ 1,578,481</u>	<u>\$ 11,544,554</u>	<u>347,203</u>

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

STERLING COUNTY, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 583,757	\$ 23,670	\$ 59,886	\$
Road and bridge	881,256	115,065		
County judge	88,595	25,236	8,168	
County and district clerk	129,746	55,529	942	
Justice of the peace	97,920	274,084		
County attorney	87,740	800		
County treasurer	65,765			
County tax collector	96,704	17,105		
County building operations	246,715			
County sheriff	341,404	2,531	483	
County agent	65,114			
Trapper	73,800			
Senior citizens	37,400			
Volunteer fire department	77,113			
EMS	337,251	83,561		
Clinic	270,228	117,613		
Interest and debt issuance costs	34,047			
Total governmental activities	3,514,555	715,194	69,479	
Business-type activities:				
Nursing home operations	2,499,783	1,570,621	105,382	
Total business-type activities	2,499,783	1,570,621	105,382	
Total Primary Government	\$ 6,014,338	\$ 2,285,815	\$ 174,861	\$
Component Units:				
Fire Department	\$ 64,230	\$	\$ 68,119	\$
Senior Citizens	55,769	7,625	40,291	
Total component units	\$ 119,999	\$ 7,625	\$ 108,410	\$

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

 Net position - beginning

 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>
\$ (500,201)		
(766,191)		
(55,191)		
(73,275)		
176,164		
(86,940)		
(65,765)		
(79,599)		
(246,715)		
(338,390)		
(65,114)		
(73,800)		
(37,400)		
(77,113)		
(253,690)		
(152,615)		
(34,047)		
<u>(2,729,882)</u>		
	\$ (823,780)	
	<u>(823,780)</u>	
<u>(2,729,882)</u>	<u>(823,780)</u>	
		\$ 3,889
		<u>(7,853)</u>
		<u>(3,964)</u>
3,598,112		
53,078		11
116,680	7,123	45
(566,839)	566,839	
<u>3,201,031</u>	<u>573,962</u>	<u>56</u>
471,149	(249,818)	(3,908)
<u>9,494,924</u>	<u>1,828,299</u>	<u>351,111</u>
\$ <u>9,966,073</u>	\$ <u>1,578,481</u>	\$ <u>347,203</u>

STERLING COUNTY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2018

	General Fund	Road & Bridge Fund	Construction Fund
ASSETS			
Cash and cash investments	\$ 2,058,349	\$ 986,211	\$
Investments	1,800,000		
Property tax receivable, net	35,234		
Accounts receivable, net	64,715	3,704	
Grant Receivable			
Accrued interest receivable	6,641		
Prepaid insurance	70,193	5,000	
 Total Assets	 \$ 4,035,132	 \$ 994,915	 \$
 LIABILITIES			
Liabilities:			
Accounts payable	\$ 31,598	\$ 1,103	\$
Due to state	52,513		
Total liabilities	84,111	1,103	
 DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property tax	58,567		
Total deferred inflows of resources	58,567		
 FUND BALANCE			
Nonspendable for prepaids	70,193	5,000	
Restricted:			
Special revenue		988,812	
Debt service			
Capital construction			-
Unassigned	3,822,261		
Total fund balance	3,892,454	993,812	
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 \$ 4,035,132	 \$ 994,915	 \$ -

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>
\$ 26,638	\$ 235,711	\$ 3,306,909
	320,000	2,120,000
8,532		43,766
		68,419
	403	7,044
		<u>75,193</u>
<u>\$ 35,170</u>	<u>\$ 556,114</u>	<u>\$ 5,621,331</u>

\$ 3,507	\$	\$ 36,208
		<u>52,513</u>
<u>3,507</u>		<u>88,721</u>
<u>8,532</u>		<u>67,099</u>
<u>8,532</u>		<u>67,099</u>
		75,193
	556,114	1,544,926
23,131		23,131
		<u>3,822,261</u>
<u>23,131</u>	<u>556,114</u>	<u>5,465,511</u>
<u>\$ 35,170</u>	<u>\$ 556,114</u>	<u>\$ 5,621,331</u>

STERLING COUNTY, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

Total fund balances - governmental funds	\$	5,465,511
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 \$8,445,289 and the accumulated depreciation was \$2,661,794.		5,783,495
Current year capital outlays are expenditures in the fund financial statements, but are shown as increases to capital assets in statement of net position.		39,363
Depreciation expense decreases net position, but is not recorded in the fund financial statements.		(397,392)
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.		(1,505,000)
Deferred revenue are recorded in the fund financial statements, but the revenue is recognized in the governmental-wide financial statements.		67,099
Included on the government-wide financial statements is the recognition of the County's proportionate share of the net pension asset of \$573,835, and a deferred outflow of resources of \$141,498, and a deferred inflow of \$202,336. The net effect is to increase net position.		<u>512,997</u>
Net position of governmental activities - statement of net position	\$	<u><u>9,966,073</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, 2018

	General Fund	Road & Bridge Fund	Construction Fund
REVENUES			
Property taxes	\$ 2,464,836	\$ 323,115	\$
Licenses and permits		113,852	
Fees	123,757	1,213	
Fines and forfeitures	236,124		
Clinic revenue	117,613		
Investment earnings	37,726	11,241	50
Rental revenues	2,400		
Intergovernmental	59,886		
EMS revenue	83,561		
Miscellaneous	80,120	36,560	
Total revenues	3,206,023	485,981	50
EXPENDITURES			
Current:			
General government	545,276		
Road and bridge		593,328	54,550
County judge	88,595		
County and district clerk	129,746		
Justice of the peace	97,920		
County attorney	87,740		
County treasurer	65,765		
County tax collector	96,704		
County building operations	175,914		
County sheriff	321,170		
County agent	59,284		
Trapper	73,800		
Senior citizens	37,400		
Volunteer fire department	50,000		
Clinic	335,596		
EMS	231,847		
Capital outlay	39,363		
Debt service			
Total expenditures	2,436,120	593,328	54,550
Excess (deficiency) of revenues over expenditures	769,903	(107,347)	(54,500)
OTHER FINANCING SOURCES (USES)			
Transfers out	(566,839)	135,655	
Total other financing sources (uses)	(566,839)	135,655	
Net Change in Fund Balance	203,064	28,308	(54,500)
Fund Balance - Beginning	3,689,390	965,504	54,500
Fund Balance - Ending	\$ 3,892,454	\$ 993,812	\$

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

Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 772,349	\$ 28,271	\$ 3,588,571
		113,852
	36,674	161,644
		236,124
		117,613
168	3,893	53,078
		2,400
	9,593	69,479
		83,561
		116,680
<u>772,517</u>	<u>78,431</u>	<u>4,543,002</u>
	54,212	599,488
		647,878
		88,595
		129,746
		97,920
		87,740
		65,765
		96,704
		175,914
		321,170
		59,284
		73,800
		37,400
		50,000
		335,596
		231,847
		39,363
764,047		764,047
<u>764,047</u>	<u>54,212</u>	<u>3,902,257</u>
8,470	24,219	640,745
(135,655)		(566,839)
<u>(135,655)</u>		<u>(566,839)</u>
(127,185)	24,219	73,906
150,316	531,895	5,391,605
\$ <u>23,131</u>	\$ <u>556,114</u>	\$ <u>5,465,511</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, 2018**

Net change in fund balance - governmental funds	\$	73,906
<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>		39,363
<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>		(397,392)
<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 \$730,000.</p>		730,000
<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 \$9,541. This results in a increase in net position</p>		9,541
<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 increase in the amount of \$15,731. The net effect is a increase in net position.</p>		15,731
Net position of governmental activities - statement of net position	\$	471,149

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

STERLING COUNTY, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUND
 SEPTEMBER 30, 2018

	<u>Nursing Home</u>
ASSETS:	
Current Assets:	
Cash and cash investments	\$ 186,375
Accounts receivable, net	116,090
Prepaid expense	<u>66,086</u>
Total Current Assets	<u>368,551</u>
Noncurrent Assets:	
Depreciable capital assets, net	736,063
Net pension asset	<u>679,080</u>
Total Noncurrent Assets	<u>1,415,143</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>309,573</u>
Deferred outflows - pension related	
Total Assets and Deferred Outflows of Resources	<u>2,093,267</u>
LIABILITIES:	
Accounts payable	55,046
Accrued payroll expenses	73,601
Due to others	<u>4,567</u>
Total Liabilities	<u>133,214</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension related	<u>381,572</u>
NET POSITION:	
Net investment in capital assets	736,063
Unrestricted	<u>842,418</u>
Total Net Position	<u>\$ 1,578,481</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, 2018

	<u>Nursing Home</u>
OPERATING REVENUE:	
Resident revenue	\$ 1,570,551
State QIPP Funds	105,382
Other operating revenue	7,123
Donations	<u>70</u>
Total Operating Revenue	<u>1,683,126</u>
OPERATING EXPENSES:	
Nursing	873,092
Medical supplies	94,771
Consultants and management fees	214,137
Activities	27,722
Medical records	35,262
Dietary	210,048
Laundry	126,010
Therapy	181,653
Other operating	<u>737,088</u>
Total Operating Expenses	<u>2,499,783</u>
Operating Income	<u>(816,657)</u>
NON-OPERATING REVENUE (EXPENSES)	
Transfers in	<u>566,839</u>
Total Non-operating Revenue (Expenses)	<u>566,839</u>
CHANGE IN NET POSITION	(249,818)
NET POSITION - BEGINNING	<u>1,828,299</u>
NET POSITION - ENDING	<u>\$ 1,578,481</u>

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

STERLING COUNTY, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2018

	<u>Nursing Home</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from resident services	\$ 1,544,148
Receipts from state QIPP program	105,382
Payments to employees and related taxes and benefits	(1,523,317)
Payments to consultants and management company	(405,594)
Payments to suppliers	(192,188)
Payments to others	(299,449)
Net cash provided (used) by operating activities	<u>(771,018)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating transfers in	<u>566,839</u>
Net cash provided (used) by noncapital financing activities	<u>566,839</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	<u>(14,988)</u>
Net cash provided (used) by capital and related financing activities	<u>(14,988)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net cash provided (used) by investing activities	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(219,167)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>405,542</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 186,375</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (816,657)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	68,091
(Increase) decrease in accounts receivable	(25,239)
(Increase) decrease in prepaid assets	29,612
(Increase) decrease in pension related assets	(18,616)
Increase (decrease) in accounts payable	(2,681)
Increase (decrease) in accrued payroll	2,829
Increase (Decrease) in due to others	(8,357)
Net cash used by operating activities	<u>\$ (771,018)</u>

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

STERLING COUNTY, TEXAS

BALANCE SHEET - FIDUCIARY FUNDS

SEPTEMBER 30, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ <u>80,765</u>
Total Assets	\$ <u><u>80,765</u></u>
 LIABILITIES	
Due to Others	\$ <u>80,765</u>
Total Liabilities	\$ <u><u>80,765</u></u>

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

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, 2018

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, 2018

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, 2018 was \$.551784 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, 2018

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, 2018

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 \$75,193 classified as nonspendable at September 30, 2018.

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 \$988,812 restricted for road and bridge repairs, \$556,114 for special revenue projects, and \$23,131 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, 2018.

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, 2018

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, 2018, the carrying amount of the County's deposits and certificates of deposit was \$5,507,675. The bank balance at September 30, 2018, was \$5,644,245. The County's cash deposits and certificates of deposit at September 30, 2018, 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, 2018

NOTE 4: DEPOSITS AND INVESTMENTS - continued

The County's investments at September 30, 2018 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, 2018, 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, 2018, the County was not exposed to custodial credit risk.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
PRIMARY GOVERNMENT				
Governmental Activities:				
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	-	77,247	6,238
Capital assets being depreciated				
Buildings and improvements	1,503,985			1,503,985
Furniture and equipment	1,988,782	33,103		2,021,885
Vehicles	936,401	6,260		942,661
Infrastructure	3,932,636	77,247		4,009,883
Total capital assets being depreciated	8,361,804	116,610	-	8,478,414
Less accumulated depreciation for:				
Buildings and improvements	(703,797)	(50,442)		(754,239)
Furniture and equipment	(958,405)	(151,688)		(1,110,093)
Vehicles	(549,821)	(79,912)		(629,733)
Infrastructure	(449,771)	(115,350)		(565,121)
Total accumulated depreciation	(2,661,794)	(397,392)	-	(3,059,186)
Governmental activities capital assets, net	\$ 5,783,495	\$ (280,782)	\$ 77,247	\$ 5,425,466

Depreciation was charged to the functions as follows:

Road and bridge	\$ 233,378
County agent	5,830
County sheriff	20,234
General government	70,801
Volunteer fire department	27,113
Family clinic	1,655
EMS	38,381
Total depreciation expense-governmental activiti	\$ 397,392

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5: CAPITAL ASSETS – continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business type activities:				
Capital assets being depreciated				
Buildings and improvements	\$ 1,738,160	\$ 6,380	\$ -	\$ 1,744,540
Furniture and equipment	428,077	8,608	-	436,685
Total capital assets being depreciated	2,166,237	14,988	-	2,181,225
Less accumulated depreciation for:				
Buildings and improvements	(1,016,466)	(45,060)	-	(1,061,526)
Furniture and equipment	(360,605)	(23,031)	-	(383,636)
Total accumulated depreciation	(1,377,071)	(68,091)	-	(1,445,162)
Business type activities capital assets, net \$	789,166	\$ (53,103)	\$ -	\$ 736,063
	Beginning Balance	Increases	Decreases	Ending Balance
DISCRETELY PRESENTED COMPONENT UNITS				
Capital assets being depreciated				
Buildings and improvements	\$ 391,619	\$ -	\$ -	\$ 391,619
Furniture and equipment	237,565	19,363	-	256,928
Total capital assets being depreciated	629,184	19,363	-	648,547
Less accumulated depreciation for:				
Buildings and improvements	(172,259)	(9,444)	-	(181,703)
Furniture and equipment	(152,041)	(16,702)	-	(168,743)
Total accumulated depreciation	(324,300)	(26,146)	-	(350,446)
Business type activities capital assets, net \$	304,884	\$ (6,783)	\$ -	\$ 298,101

Depreciation was charged to functions as follows:

Sterling County Senior Center	\$ 8,401
Sterling Volunteer Fire Department	17,745
	\$ 26,146

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6: LONG TERM DEBT

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

	Balance October 1, 2017	Additions	Deletions	Balance September 30, 2018
Tax Notes Series 2014	\$ 2,235,000	\$	\$ 730,000	\$ 1,505,000
Total Long Term Debt	2,235,000	-	730,000	1,505,000

Current Maturities of Long Term Debt are as follows:

Fiscal Year	Principal	Interest	Total
2019	745,000	21,404	766,404
2020	760,000	7,182	767,182
	\$ 1,505,000	28,586	1,533,586

Long term debt at September 30, 2018 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.

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 760 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;

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

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 2017 and 2018 were 7.18% and 7.85% respectively. The deposit rate payable by the employee members for the calendar year 2017 and 2018 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, 2018 were \$202,663.

Actuarial Assumptions

The total pension asset at December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2017
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	4.9% average over career including inflation

The actuarial assumptions that determined the total pension liability as of December 31, 2017 were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2016, except where required to be different by GASB 68.

There were no changes in methods, but the following changes in actuarial assumptions were reflected in the December 31, 2017 actuarial valuation: (1) Inflation assumption decreased from 3.0% per year to 2.75% per year, with a corresponding decrease in the general wage growth from 3.5% to 3.2%; (2) Slightly adjusted all mortality rates to better reflect anticipated experience; (3) Adjusted retirement rates to reflect people retiring at older ages; (4) Lowered disability retirement rates; (5) Adjustments made to termination rates and some employers assigned to a different termination group; (6) Lowered probability of withdrawal of contributions upon termination; (7) Adjusted merit salary scale to reflect anticipated future experience; and (8) Adjusted payroll increase assumption for some employers to reflect the change in the general wage growth assumption and to reflect changes in anticipated experience.

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.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2018

NOTE 7: RETIREMENT PLAN - continued

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.

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 2017 based on the period January 1, 2013 to December 31, 2016. Best estimates of geometric real rates of return for each major asset class included in the target asset allocation are summarized below:

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7: RETIREMENT PLAN - continued

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus inflation)
US Equities	Dow Jones US Total Stock Market Index	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities – Developed	MSCI Work Ex USA (net)	11.00%	4.55%
International Equities – Emerging	MSCI Emerging Markets (net) index	8.00%	5.55%
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REIT's Index + 33% FRSE EPRA/NAREIT Global Rate Estate Index	2.00%	4.05%
Master Limited Partnerships (MLP's)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

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

At September 30, 2018, the County reported a net pension asset of \$1,252,915 for its proportionate share of the TCDRS's net pension liability measured at December 31, 2017. For the year ended September 30, 2018, the County recognized pension expense of \$168,316.

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, 2018

NOTE 7: RETIREMENT PLAN - continued

Changes in the net pension asset for the measurement year ended December 31, 2017 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, 2016	8,338,550	8,879,264	(540,714)
Changes for the year:			
Service Cost	416,856		416,856
Interest on total pension liability	681,611		681,611
Effect of plan changes			
Effect of economic/demographic gains or losses	(201,130)		(201,130)
Effect of assumptions changes or inputs	45,961		45,961
Refund of contributions	(133,355)	(133,355)	
Benefit payments	(561,084)	(561,084)	
Administrative expenses		(6,544)	6,544
Member contributions		172,228	(172,228)
Net investment income		1,290,932	(1,290,932)
Employer contributions		203,229	(203,229)
Other		(4,346)	4,346
Balances as of December 31, 2017	\$ 8,587,409	\$ 9,840,324	\$ (1,252,915)

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	\$ 9,531,053	\$ 8,587,409	\$ 7,782,466
Fiduciary Net Position	9,940,325	9,840,325	9,940,325
Net Pension Liability/(Asset)	\$ (309,272)	\$ (1,252,915)	\$ (2,057,859)

At December 31, 2017 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		\$ 236,158
Changes in actuarial assumptions	\$ 30,641	
Difference between projected and actual investment earnings	393,510	467,848
Contributions subsequent to the measurement date	147,018	
Total	\$ 571,169	\$ 704,006

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7: RETIREMENT PLAN - continued

\$147,018 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, 2018. 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:	
2019	\$ (67,425)
2020	12,077
2021	(107,545)
2022	(116,962)
2023	
Thereafter	
	\$ 279,855

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 2018, 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, 2018, 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.

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, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Property taxes	\$ 2,449,772	\$ 2,449,772	\$ 2,464,836	\$ 15,064
Fees	112,700	112,700	123,757	11,057
Fines and forfeitures	256,300	256,300	236,124	(20,176)
Clinic revenue	175,714	175,714	117,613	(58,101)
Investment earnings	15,000	15,000	37,726	22,726
Rental revenues	2,400	2,400	2,400	
Intergovernmental	85,534	85,534	59,886	(25,648)
EMS revenue	80,000	80,000	83,561	3,561
Miscellaneous	101,790	101,790	80,120	(21,670)
Total Revenues	<u>3,279,210</u>	<u>3,279,210</u>	<u>3,206,023</u>	<u>(73,187)</u>
Expenditures				
Current:				
General government	650,291	642,031	545,276	96,755
County judge	92,103	92,103	88,595	3,508
County and district clerk	134,668	134,668	129,746	4,922
Justice of the peace	100,685	100,685	97,920	2,765
County attorney	87,942	87,942	87,740	202
County treasurer	70,078	70,078	65,765	4,313
County tax collector	101,319	101,319	96,704	4,615
County building operations	176,163	176,163	175,914	249
County sheriff	344,248	344,248	321,170	23,078
County agent	65,582	65,582	59,284	6,298
Trapper	73,800	73,800	73,800	
Senior citizens	37,400	37,400	37,400	
Volunteer fire department	50,000	50,000	50,000	
Clinic	375,418	377,818	335,596	42,222
EMS	238,359	237,959	231,847	6,112
Capital outlay	33,000	39,260	39,363	(103)
Total Expenditures	<u>2,631,056</u>	<u>2,631,056</u>	<u>2,436,120</u>	<u>194,936</u>
Excess (deficiency) of revenues over expenditures	<u>648,154</u>	<u>648,154</u>	<u>769,903</u>	<u>121,749</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(648,154)	(648,154)	(566,839)	81,315
Total other financing sources (uses)	<u>(648,154)</u>	<u>(648,154)</u>	<u>(566,839)</u>	<u>81,315</u>
Net Change in Fund Balance			203,064	203,064
Fund Balance - Beginning	<u>3,689,390</u>	<u>3,689,390</u>	<u>3,689,390</u>	
Fund Balance - Ending	<u>\$ 3,689,390</u>	<u>\$ 3,689,390</u>	<u>\$ 3,892,454</u>	<u>\$ 203,064</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, 2018**

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
Property taxes	\$ 320,310	\$ 320,310	\$ 323,115	\$ 2,805
Licenses and permits	132,100	132,100	113,852	(18,248)
Fees	2,200	2,200	1,213	(987)
Investment earnings	600	600	11,241	10,641
Intergovernmental				
Miscellaneous	40,000	40,000	36,560	(3,440)
Total Revenues	<u>495,210</u>	<u>495,210</u>	<u>485,981</u>	<u>(9,229)</u>
Expenditures				
Commissioner's salary	82,320	82,320	82,320	
Road foreman salary	43,981	43,981	43,981	
Landfill salary	4,007	4,007	3,467	540
Cell phone allowance	1,800	1,800	1,800	
Road salary	71,875	71,875	71,875	
Social security	15,606	15,606	15,564	42
Group hospital insurance	74,000	74,000	73,659	341
Retirement	16,217	16,217	16,179	38
Permit and landfill fees	15,000	15,000	16,704	(1,704)
Fuel and oil	30,000	36,541	28,058	8,483
Supplies	800	950	892	58
County barn maintenance	524	524	3,675	(3,151)
Telephone	750	1,640	2,424	(784)
Travel expenses	5,000	5,000	957	4,043
Utilities	2,350	2,350	1,836	514
Machine parts and repairs	45,000	45,000	39,284	5,716
Road materials and repairs	60,000	190,655	182,896	7,759
Lateral road funds	6,880	6,880	6,880	
Miscellaneous expense	4,100	3,059	877	2,182
Professional fees	15,000	8,460		8,460
Capital outlay	135,655	5,000		5,000
Total Expenditures	<u>630,865</u>	<u>630,865</u>	<u>593,328</u>	<u>37,537</u>
Excess (deficiency) of revenues over expenditures	<u>(135,655)</u>	<u>(135,655)</u>	<u>(107,347)</u>	<u>28,308</u>
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>135,655</u>	<u>135,655</u>	<u>135,655</u>	
Total other financing sources (uses)	<u>135,655</u>	<u>135,655</u>	<u>135,655</u>	
Net Change in Fund Balance			28,308	28,308
Fund Balance - Beginning	<u>965,504</u>	<u>965,504</u>	<u>965,504</u>	
Fund Balance - Ending	<u>\$ 965,504</u>	<u>\$ 965,504</u>	<u>\$ 993,812</u>	<u>\$ 28,308</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>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 355,211	\$ 348,418	\$ 470,366	\$ 416,856
Interest (on the Total Pension Liability)	583,273	623,188	653,432	681,611
Changes of benefit terms	-	(70,584)	-	-
Effect of economic/demographic (gains)	20,568	(89,476)	(306,213)	(201,131)
Change of assumptions	-	103,678	-	45,961
Benefit payments, including refunds	(408,001)	(553,159)	(618,930)	(694,438)
Net Change in Total Pension Liability	<u>551,051</u>	<u>362,065</u>	<u>198,655</u>	<u>248,859</u>
Total Pension Liability - Beginning	<u>7,226,779</u>	<u>7,777,830</u>	<u>8,139,895</u>	<u>8,338,550</u>
Total Pension Liability - Ending (a)	<u>\$ 7,777,830</u>	<u>\$ 8,139,895</u>	<u>\$ 8,338,550</u>	<u>\$ 8,587,409</u>
 Plan Fiduciary Net Position				
Contributions - Employer	192,443	186,747	183,790	203,229
Contributions - Employee	164,281	172,458	179,182	172,228
Net Investment Income	568,189	(140,407)	633,338	1,290,932
Benefit payments, including refunds	(408,001)	(553,159)	(618,930)	(694,438)
Administrative Expense	(6,635)	(6,257)	(6,877)	(6,544)
Other	(48,015)	49,291	(40,041)	(4,347)
Net Change in Plan Fiduciary Net Position	<u>462,262</u>	<u>(291,327)</u>	<u>330,462</u>	<u>961,060</u>
Plan Fiduciary Net Position - Beginning	<u>8,377,866</u>	<u>8,840,128</u>	<u>8,548,802</u>	<u>8,879,264</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 8,840,128</u>	<u>\$ 8,548,801</u>	<u>\$ 8,879,264</u>	<u>\$ 9,840,324</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ (1,062,298)</u>	<u>\$ (408,906)</u>	<u>\$ (540,714)</u>	<u>\$ (1,252,915)</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	113.66%	105.02%	106.48%	114.59%
 Covered Employee Payroll	\$ 2,346,870	\$ 2,463,681	\$ 2,559,748	\$ 2,460,401
 Net Pension Liability as a Percentage of Covered Employee Payroll	-45.26%	-16.60%	-21.12%	-50.92%

STERLING COUNTY, TEXAS
Schedule of Employer Contributions
Texas County & District Retirement System
For Fiscal Year 2018

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
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%
2017	203,229	203,229	-	2,460,401	8.3%

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, 2018

	Jury Fund	Records Management	Courthouse Security	Technology Fund
ASSETS				
Cash and cash investments	\$ 104,499	\$ 26,166	\$ 60,787	\$ 8,275
Investments	300,000		20,000	
Accrued interest receivable	339		64	
Total Assets	\$ <u>404,838</u>	\$ <u>26,166</u>	\$ <u>80,851</u>	\$ <u>8,275</u>
LIABILITIES				
Accrued interest payable	\$ _____	\$ _____	\$ _____	\$ _____
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue				
Total Liabilities and deferred inflows of resources				
FUND BALANCE				
Restricted	404,838	26,166	80,851	8,275
Unassigned				
Total Fund Balance	404,838	26,166	80,851	8,275
Total Liabilities and Fund Balance	\$ <u>404,838</u>	\$ <u>26,166</u>	\$ <u>80,851</u>	\$ <u>8,275</u>

Court Technology	District Records Archive	Sheriff Special Revenue Fund	Clerk Records Archive	Total Nonmajor Governmental Funds
\$ 4,012	\$ 1,809	\$ 3,088	\$ 27,075	\$ 235,711 320,000 403
<u>\$ 4,012</u>	<u>\$ 1,809</u>	<u>\$ 3,088</u>	<u>\$ 27,075</u>	<u>\$ 556,114</u>
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
4,012	1,809	3,088	27,075	556,114
<u>4,012</u>	<u>1,809</u>	<u>3,088</u>	<u>27,075</u>	<u>556,114</u>
<u>\$ 4,012</u>	<u>\$ 1,809</u>	<u>\$ 3,088</u>	<u>\$ 27,075</u>	<u>\$ 556,114</u>

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Jury Fund	Records Management	Courthouse Security	Technology Fund
REVENUES:				
Property taxes	\$ 28,271	\$	\$	\$
Fees	4,234	5,085	11,120	10,369
Intergovernmental	8,168	942		
Investment earnings	2,747	261	724	90
Total Revenues	43,420	6,288	11,844	10,459
EXPENDITURES:				
Current:				
Salaries and benefits	3,121			
Other operating	27,220	2,873	5,417	10,048
Total Expenditures	30,341	2,873	5,417	10,048
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	13,079	3,415	6,427	411
OTHER FINANCING SOURCES:				
Transfers from other funds				
Total Other Financing Sources				
NET CHANGE IN FUND BALANCE	13,079	3,415	6,427	411
FUND BALANCE - BEGINNING	391,759	22,751	74,424	7,864
FUND BALANCE - ENDING	\$ 404,838	\$ 26,166	\$ 80,851	\$ 8,275

Court Technology	District Records Archive	Sheriff Special Revenue Fund	Clerk Records Archive	Total Nonmajor Governmental Funds
\$ 383	\$ 245	\$ 483	\$ 5,238	\$ 28,271
41	2		28	36,674
<u>424</u>	<u>247</u>	<u>483</u>	<u>5,266</u>	<u>78,431</u>
		1,353	4,180	3,121
		<u>1,353</u>	<u>4,180</u>	<u>51,091</u>
424	247	(870)	1,086	24,219
<u>424</u>	<u>247</u>	<u>(870)</u>	<u>1,086</u>	<u>24,219</u>
3,588	1,562	3,958	25,989	531,895
<u>4,012</u>	<u>1,809</u>	<u>3,088</u>	<u>27,075</u>	<u>556,114</u>

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS

SEPTEMBER 30, 2018

	<u>Sterling Volunteer Fire Department</u>	<u>Sterling County Senior Citizens</u>	<u>Total Component Units</u>
ASSETS			
Current:			
Cash and investments	\$ 42,792	\$ 6,829	\$ 49,621
Total current assets	<u>42,792</u>	<u>6,829</u>	<u>49,621</u>
Noncurrent assets:			
Property and equipment, net	<u>103,306</u>	<u>194,795</u>	<u>298,101</u>
Total noncurrent assets	<u>103,306</u>	<u>194,795</u>	<u>298,101</u>
TOTAL ASSETS	<u>146,098</u>	<u>201,624</u>	<u>347,722</u>
LIABILITIES			
Accounts Payable	<u>519</u>		<u>519</u>
Total Liabilities	<u>519</u>		<u>519</u>
NET POSITION			
Net investment in capital assets	103,306	194,795	298,101
Unrestricted	<u>42,273</u>	<u>6,829</u>	<u>49,102</u>
TOTAL NET POSITION	<u>\$ 145,579</u>	<u>\$ 201,624</u>	<u>\$ 347,203</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	\$	\$ 7,625	\$ 7,625
Donations	18,120	2,291	20,411
Intergovernmental	49,999	38,000	87,999
Investment earnings	11		11
Miscellaneous	45		45
	<u>68,175</u>	<u>47,916</u>	<u>116,091</u>
EXPENDITURES:			
Current:			
Salaries and benefits		26,072	26,072
Occupancy costs	4,899	8,935	13,834
Repairs and supplies	36,045	8,907	44,952
Depreciation	17,745	8,401	26,146
Other operating	5,541	3,454	8,995
	<u>64,230</u>	<u>55,769</u>	<u>119,999</u>
Total Expenditures			
	<u>64,230</u>	<u>55,769</u>	<u>119,999</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	3,945	(7,853)	(3,908)
NET POSITION - BEGINNING OF YEAR	<u>141,634</u>	<u>209,477</u>	<u>351,111</u>
NET POSITION - END OF YEAR	<u>\$ 145,579</u>	<u>\$ 201,624</u>	<u>\$ 347,203</u>

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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, 2018, and the related notes to the financial statements, which collectively comprise Sterling County, Texas' basic financial statements, and have issued our report thereon dated February 12, 2019.

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,
February 12, 2019