

STERLING COUNTY,
TEXAS

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S
REPORT

YEAR ENDED

SEPTEMBER 30,2019



Roberts & McGee CPA

STERLING COUNTY, TEXAS
TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 10 |
| Statement of Activities..... | 11 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 12 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position..... | 14 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 15 |
| Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Statement of Net Position – Proprietary Fund | 18 |
| Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund..... | 19 |
| Statement of Cash Flows – Proprietary Fund | 20 |
| Balance Sheet – Fiduciary Funds..... | 21 |
| Notes to Financial Statements..... | 22 |
| Required Supplementary Information: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual – General Fund..... | 37 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual – Road & Bridge Fund..... | 38 |
| Schedule of Changes in Net Pension Liability And Related Ratios | 39 |
| Schedule of Contributions with related Notes..... | 41 |
| Other Supplementary Information: | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 42 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds..... | 44 |
| Combining Statement of Net Position – Component Units..... | 46 |
| Combining Statement of Activities – Component Units..... | 47 |
| 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 <i>Government Auditing Standards</i> | 48 |

ROBERTS & MCGEE, CPA

104 PINE STREET, SUITE 710
ABILENE, TEXAS 79601
(325) 701-9502

Becky Roberts, CPA
becky.roberts@rm-cpa.net
Cell: 325-665-5239

Stacey McGee, CPA
stacey.mcgee@rm-cpa.net
Cell: 325-201-7244

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, 2019, 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, 2019, 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 37-41 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 42-47 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 6, 2020, 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
Roberts & McGee, CPA

Abilene, Texas,
February 6, 2020

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

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, 2019.

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 \$13,102,689 (*net position*). Of this amount, \$5,805,865 (*unrestricted*) may be used to meet the government's ongoing obligations to citizens. \$5,653,560 of the County's equity is invested in capital assets, net of related debt; and \$1,643,264 of the County's equity is restricted for special revenue funds and debt service.
- The assets of the business-type activities of Sterling County exceeded its liabilities at the close of the most recent fiscal year by \$1,723,555 (*net position*). Of this amount, \$1,050,723 (*unrestricted*) may be used to meet the government's ongoing obligations. \$672,832 of the County's equity is invested in capital assets.
- The net position (*equity*) of the governmental activities of the County increased by \$1,413,061 during the 2019 fiscal year, and net position (*equity*) of the business-type activities of the County increased by \$145,074 during the 2019 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 \$4,118,808. This fund balance reflects an increase of \$296,547 over the prior year unassigned fund balance.
- In the road & bridge fund, the fund balance increased \$30,127 for the current year.
- The proprietary fund which reports on the operations of the nursing home reflects an increase in net position for the current year of \$145,074.

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, 2019**

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 three governmental fund types which are the general fund, special revenue funds, and, debt service 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, 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, 2019**

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 42-45 of this report. Combining financial statements for the aggregated component units are also provided as other supplemental information and can be found on pages 46-47.

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 \$11,379,134 in the governmental activities and \$1,723,555 in the business-type activities at the close of the most recent fiscal year.

\$5,653,560 of Sterling County's total net position (43 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 | |
|---|-------------------------|--------------|
| | 2019 | 2018 |
| Current assets | \$ 6,054,575 | \$ 5,621,331 |
| Non-current assets | 5,894,157 | 5,999,301 |
| Total Assets | 11,948,732 | 11,620,632 |
| Deferred Outflows - Pension | 514,406 | 261,596 |
| Total Assets and Deferred Outflows | 12,463,138 | 11,882,228 |
| Current liabilities | 888,290 | 833,721 |
| Long-term liabilities | 888,290 | 760,000 |
| Total Liabilities | 888,290 | 1,593,721 |
| Deferred Inflows - Pension | 195,714 | 322,434 |
| Total Liabilities and Deferred Outflows | 1,084,004 | 1,916,155 |
| Net investment in capital assets | 4,980,728 | 3,920,466 |
| Restricted | 1,643,264 | 1,568,057 |
| Unrestricted | 4,755,142 | 4,477,550 |
| Total Net Position | \$ 11,379,134 | \$ 9,966,073 |

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Sterling County's Changes in Net Position

| | Governmental Activities | |
|----------------------------------|-------------------------|--------------|
| | 2019 | 2018 |
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 833,756 | \$ 715,194 |
| Operating grants & contributions | 181,701 | 69,479 |
| General Revenues | | |
| Property taxes | 4,521,879 | 3,598,112 |
| Investment earnings | 82,694 | 53,078 |
| Other income | 254,410 | 116,680 |
| Transfers | (824,161) | (566,839) |
| Total Revenues | 5,050,279 | 3,985,704 |
| Expenses | | |
| General government | 633,692 | 583,757 |
| Road and bridge | 726,337 | 881,256 |
| County judge | 96,896 | 88,595 |
| County and district clerk | 132,524 | 129,746 |
| Justice of the peace | 104,648 | 97,920 |
| County attorney | 90,286 | 87,740 |
| County treasurer | 71,006 | 65,765 |
| County tax collector | 100,227 | 96,704 |
| County building operations | 298,078 | 246,715 |
| County sheriff | 460,065 | 341,404 |
| County agent | 69,154 | 65,114 |
| Trapper | 76,800 | 73,800 |
| Senior citizens | 37,400 | 37,400 |
| Volunteer fire department | 77,113 | 77,113 |
| EMS | 273,588 | 270,228 |
| Clinic | 369,736 | 337,251 |
| Interest and debt issuance costs | 19,668 | 34,047 |
| Total expenses | 3,637,218 | 3,514,555 |
| Change in Net Position | 1,413,061 | 471,149 |
| Beginning Net Position | 9,966,073 | 9,494,924 |
| Ending Net Position | \$ 11,379,134 | \$ 9,966,073 |

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

| | <u>Business-Type Activities</u> | |
|---|---------------------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Current assets | \$ 596,402 | \$ 368,551 |
| Non-current assets | 854,402 | 1,415,143 |
| Total Assets | <u>1,450,804</u> | <u>1,783,694</u> |
| Deferred Outflows - Pension | 608,570 | 309,573 |
| Total Assets and Deferred Outflows | <u>2,059,374</u> | <u>2,093,267</u> |
| Current liabilities | 104,388 | 133,214 |
| Total Liabilities | <u>104,388</u> | <u>133,214</u> |
| Deferred Inflows - Pension | 231,611 | 381,572 |
| Total Liabilities and Deferred Outflows | <u>335,999</u> | <u>514,786</u> |
| Net investment in capital assets | 672,832 | 736,063 |
| Unrestricted | 1,050,723 | 842,418 |
| Total Net Position | <u>\$ 1,723,555</u> | <u>\$ 1,578,481</u> |

| | <u>Business-Type Activities</u> | |
|----------------------------------|---------------------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 1,749,256 | \$ 1,570,621 |
| Operating grants & contributions | 253,883 | 105,382 |
| General Revenues | | |
| Other revenue | 12,585 | 7,123 |
| Transfers | 824,161 | 566,839 |
| Total Revenues | <u>2,839,885</u> | <u>2,249,965</u> |
| Expenses | | |
| Nursing home | 2,694,811 | 2,499,783 |
| Total expenses | <u>2,694,811</u> | <u>2,499,783</u> |
| Change in Net Position | 145,074 | (249,818) |
| Beginning Net Position | <u>1,578,481</u> | <u>1,828,299</u> |
| Ending Net Position | <u>\$ 1,723,555</u> | <u>\$ 1,578,481</u> |

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

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 \$4,224,208, which is generally unassigned and available for spending at the County's discretion. The road and bridge fund reported an ending fund balance of \$1,023,939 which is restricted for road and bridge operations.

Fund Budgetary Highlights

The original budget for the general fund reflected a balanced budget. The adjusted budget reflected a deficit of \$37,528. The actual expenditures were \$345,227 less than the final budgeted amounts, and actual revenues were \$63,536 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 \$47,212 less than the final budgeted amounts, and actual revenues were \$17,085 less than was budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets Sterling County's investment in capital assets for its governmental activities amounts to \$5,740,728 (net of accumulated depreciation), and the investment in capital assets for its business-type activities amounts to \$672,832 (net of accumulated depreciation) as of September 30, 2019. This investment in capital assets includes land, buildings and improvements, infrastructure, and equipment.

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

| | Governmental Activities | |
|----------------------------|-------------------------|---------------------|
| | 2019 | 2018 |
| Land | \$ 6,238 | \$ 6,238 |
| Buildings and improvements | 810,082 | 749,746 |
| Infrastructure | 3,329,412 | 3,444,762 |
| Equipment | 988,738 | 911,792 |
| Vehicles | 606,258 | 312,928 |
| Total | \$ 5,740,728 | \$ 5,425,466 |

**STERLING COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

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

| | Business-Type Activities | |
|----------------------------|--------------------------|------------|
| | 2019 | 2018 |
| Buildings and improvements | \$ 631,949 | \$ 683,014 |
| Furniture and equipment | 40,883 | 53,049 |
| Total | \$ 672,832 | \$ 736,063 |

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, 2019, the County had long term liabilities as follows:

| | |
|--------------------------|------------|
| Governmental Activities: | |
| Tax Notes – Series 2014 | \$ 760,000 |

Additional information on Sterling County's long-term debt can be found in Note 6 on page 31 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sterling County adopted a 2019 property tax rate effective for its 2020 fiscal year of .537893 per \$100 property valuation. This is compared to the 2018 year tax rate of .526177 per \$100 property valuation. The 2019 tax rate is composed of .449317 for maintenance and operations and .088576 for I&S.
- The 2020 fiscal year budget was approved by the County in September of 2019. The General Fund budgeted revenues for FY 2020 were \$4,423,978 which is comparable to the FY 2019 budgeted revenues of \$4,419,720.

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, 2019

| | Primary Government | | Total | Component Units |
|--|----------------------------|-----------------------------|----------------------|--------------------|
| | Governmental Activities | Business-Type Activities | | |
| ASSETS | | | | |
| Current: | | | | |
| Cash and cash investments | \$ 3,715,641 | \$ 416,271 | \$ 4,131,912 | \$ 50,854 |
| Investments | 2,120,000 | | 2,120,000 | |
| Property tax receivable, net | 35,480 | | 35,480 | |
| Accounts receivable, net | 71,010 | 120,776 | 191,786 | |
| Accrued interest receivable | 7,044 | | 7,044 | |
| Prepaid insurance | 105,400 | 59,355 | 164,755 | |
| Total current assets | <u>6,054,575</u> | <u>596,402</u> | <u>6,650,977</u> | <u>50,854</u> |
| Non-current: | | | | |
| Capital assets | | | | |
| Non-depreciable capital assets | 6,238 | | 6,238 | |
| Depreciable capital assets, net | 5,734,490 | 672,832 | 6,407,322 | 277,958 |
| Net pension asset | 153,429 | 181,570 | 334,999 | |
| Total non-current assets | <u>5,894,157</u> | <u>854,402</u> | <u>6,748,559</u> | <u>277,958</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred outflows - pension | 514,406 | 608,750 | 1,123,156 | |
| Total Assets and Deferred Outflows of Resources | <u>12,463,138</u> | <u>2,059,554</u> | <u>14,522,692</u> | <u>328,812</u> |
| LIABILITIES | | | | |
| Current: | | | | |
| Accounts payable | 48,869 | 30,146 | 79,015 | 1,462 |
| Accrued payroll expenses | | 68,013 | 68,013 | |
| Due to other governmental entities | 79,421 | | 79,421 | |
| Due to others | | 6,229 | 6,229 | |
| Long term liabilities: | | | | |
| Due within one year | 760,000 | | 760,000 | |
| Due after one year: | | | | |
| Tax notes | | | | |
| Total Liabilities | <u>888,290</u> | <u>104,388</u> | <u>992,678</u> | <u>1,462</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred inflows - pension | 195,714 | 231,611 | 427,325 | |
| NET POSITION | | | | |
| Net investment in capital assets | 4,980,728 | 672,832 | 5,653,560 | 277,958 |
| Restricted | 1,643,264 | | 1,643,264 | |
| Unrestricted | 4,755,142 | 1,050,723 | 5,805,865 | 49,392 |
| Total Net Position | <u>\$ 11,379,134</u> | <u>\$ 1,723,555</u> | <u>\$ 13,102,689</u> | <u>327,350</u> |

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

STERLING COUNTY, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

| Functions/Programs | Expenses | Program Revenue | | |
|---------------------------------------|----------------------------|----------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 633,692 | \$ 71,513 | \$ 173,386 | \$ |
| Road and bridge | 726,337 | 116,271 | | |
| County judge | 96,896 | 39,537 | 6,409 | |
| County and district clerk | 132,524 | 55,087 | 1,544 | |
| Justice of the peace | 104,648 | 339,257 | | |
| County attorney | 90,286 | 1,365 | | |
| County treasurer | 71,006 | | | |
| County tax collector | 100,227 | 15,026 | | |
| County building operations | 298,078 | | | |
| County sheriff | 460,065 | 2,300 | 362 | |
| County agent | 69,154 | | | |
| Trapper | 76,800 | | | |
| Senior citizens | 37,400 | | | |
| Volunteer fire department | 77,113 | | | |
| EMS | 273,588 | 84,747 | | |
| Clinic | 369,736 | 108,653 | | |
| Interest and debt issuance costs | 19,668 | | | |
| Total governmental activities | <u><u>3,637,218</u></u> | <u><u>833,756</u></u> | <u><u>181,701</u></u> | |
| Business-type activities: | | | | |
| Nursing home operations | 2,694,811 | 1,749,256 | 253,883 | |
| Total business-type activities | <u><u>2,694,811</u></u> | <u><u>1,749,256</u></u> | <u><u>253,883</u></u> | |
| Total Primary Government | <u><u>\$ 6,332,029</u></u> | <u><u>\$ 2,583,012</u></u> | <u><u>\$ 435,584</u></u> | <u><u>\$</u></u> |
| Component Units: | | | | |
| Fire Department | \$ 61,933 | \$ | \$ 52,959 | \$ |
| Senior Citizens | 58,320 | 6,589 | 40,494 | |
| Total component units | <u><u>\$ 120,253</u></u> | <u><u>\$ 6,589</u></u> | <u><u>\$ 93,453</u></u> | <u><u>\$</u></u> |

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> |
| \$ (388,793) | | |
| (610,066) | | |
| (50,950) | | |
| (75,893) | | |
| 234,609 | | |
| (88,921) | | |
| (71,006) | | |
| (85,201) | | |
| (298,078) | | |
| (457,403) | | |
| (69,154) | | |
| (76,800) | | |
| (37,400) | | |
| (77,113) | | |
| (188,841) | | |
| (261,083) | | |
| (19,668) | | |
| <u>(2,621,761)</u> | | |
| | \$ <u>(691,672)</u> | |
| | <u>(691,672)</u> | |
| <u>(2,621,761)</u> | <u>(691,672)</u> | |
| | | \$ (8,974) |
| | | <u>(11,237)</u> |
| | | <u>(20,211)</u> |
| 4,521,879 | | |
| 82,694 | | 13 |
| 254,410 | 12,585 | 345 |
| <u>(824,161)</u> | <u>824,161</u> | |
| <u>4,034,822</u> | <u>836,746</u> | <u>358</u> |
| 1,413,061 | 145,074 | (19,853) |
| <u>9,966,073</u> | <u>1,578,481</u> | <u>347,203</u> |
| \$ <u>11,379,134</u> | \$ <u>1,723,555</u> | \$ <u>327,350</u> |

STERLING COUNTY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

| | General Fund | Road & Bridge Fund | Debt Service Fund |
|--|------------------|-----------------------|----------------------|
| ASSETS | | | |
| Cash and cash investments | \$ 2,393,557 | \$ 1,021,391 | \$ 35,025 |
| Investments | 1,800,000 | | |
| Property tax receivable, net | 29,194 | | 6,286 |
| Accounts receivable, net | 67,336 | 3,674 | |
| Accrued interest receivable | 6,641 | | |
| Prepaid insurance | 105,400 | | |
| Total Assets | \$ 4,402,128 | \$ 1,025,065 | \$ 41,311 |
| LIABILITIES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 45,972 | \$ 1,126 | \$ 1,771 |
| Due to state | 79,421 | | |
| Total liabilities | 125,393 | 1,126 | 1,771 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred revenue - property tax | 52,527 | | 6,286 |
| Total deferred inflows of resources | 52,527 | | 6,286 |
| FUND BALANCE | | | |
| Nonspendable for prepaids | 105,400 | | |
| Restricted: | | | |
| Special revenue | | 1,023,939 | |
| Debt service | | | 33,254 |
| Unassigned | 4,118,808 | | |
| Total fund balance | 4,224,208 | 1,023,939 | 33,254 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | \$ 4,402,128 | \$ 1,025,065 | \$ 41,311 |

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

| Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------------------|
| \$ 265,668 | \$ 3,715,641 |
| 320,000 | 2,120,000 |
| | 35,480 |
| | 71,010 |
| 403 | 7,044 |
| <u> </u> | <u>105,400</u> |
| <u>\$ 586,071</u> | <u>\$ 6,054,575</u> |
| | |
| \$ | \$ 48,869 |
| <u> </u> | <u>79,421</u> |
| <u> </u> | <u>128,290</u> |
| | |
| <u> </u> | <u>58,813</u> |
| <u> </u> | <u>58,813</u> |
| | |
| | 105,400 |
| 586,071 | 1,610,010 |
| | 33,254 |
| | 4,118,808 |
| <u>586,071</u> | <u>5,867,472</u> |
| | |
| <u>\$ 586,071</u> | <u>\$ 6,054,575</u> |

STERLING COUNTY, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
 SEPTEMBER 30, 2019

| | | |
|---|----|--------------------------|
| Total fund balances - governmental funds | \$ | 5,867,472 |
| <p>Amounts reported for governmental activities in the statement of net position are different because:</p> | | |
| <p>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 \$8,484,652 and the accumulated depreciation was \$3,059,186.</p> | | 5,425,466 |
| <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> | | 731,826 |
| <p>Depreciation expense decreases net position, but is not recorded in the fund financial statements.</p> | | (416,564) |
| <p>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.</p> | | (760,000) |
| <p>Deferred revenue are recorded in the fund financial statements, but the revenue is recognized in the governmental-wide financial statements.</p> | | 58,813 |
| <p>Included on the government-wide financial statements is the recognition of the County's proportionate share of the net pension asset of \$153,429, and a deferred outflow of resources of \$516,406, and a deferred inflow of \$195,714. The net effect is to increase net position.</p> | | <u>472,121</u> |
| Net position of governmental activities - statement of net position | \$ | <u><u>11,379,134</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, 2019

| | General Fund | Road & Bridge Fund | Debt Service Fund |
|--|-----------------|-----------------------|----------------------|
| REVENUES | | | |
| Property taxes | \$ 3,200,263 | \$ 526,912 | \$ 774,733 |
| Licenses and permits | | 115,150 | |
| Fees | 136,838 | 1,121 | |
| Fines and forfeitures | 343,481 | | |
| Clinic revenue | 108,653 | | |
| Investment earnings | 58,008 | 19,061 | 58 |
| Rental revenues | 2,400 | | |
| Intergovernmental | 173,386 | | |
| EMS revenue | 84,747 | | |
| Miscellaneous | 248,408 | 17,480 | |
| Total revenues | 4,356,184 | 679,724 | 774,791 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 566,542 | | |
| Road and bridge | | 492,613 | |
| County judge | 94,575 | | |
| County and district clerk | 129,550 | | |
| Justice of the peace | 102,166 | | |
| County attorney | 88,043 | | |
| County treasurer | 69,473 | | |
| County tax collector | 98,141 | | |
| County building operations | 219,610 | | |
| County sheriff | 426,672 | | |
| County agent | 63,939 | | |
| Trapper | 76,800 | | |
| Senior citizens | 37,400 | | |
| Volunteer fire department | 50,000 | | |
| Clinic | 359,684 | | |
| EMS | 231,354 | | |
| Capital outlay | 586,320 | 156,984 | |
| Debt service | | | 764,668 |
| Total expenditures | 3,200,269 | 649,597 | 764,668 |
| Excess (deficiency) of revenues over expenditures | 1,155,915 | 30,127 | 10,123 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers out | (824,161) | | |
| Total other financing sources (uses) | (824,161) | | |
| Net Change in Fund Balance | 331,754 | 30,127 | 10,123 |
| Fund Balance - Beginning | 3,892,454 | 993,812 | 23,131 |
| Fund Balance - Ending | \$ 4,224,208 | \$ 1,023,939 | \$ 33,254 |

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

| Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------|--------------------------------|
| \$ 28,257 | \$ 4,530,165 |
| | 115,150 |
| 41,366 | 179,325 |
| | 343,481 |
| | 108,653 |
| 5,567 | 82,694 |
| | 2,400 |
| 8,315 | 181,701 |
| | 84,747 |
| | 265,888 |
| <u>83,505</u> | <u>5,894,204</u> |
| 53,548 | 620,090 |
| | 492,613 |
| | 94,575 |
| | 129,550 |
| | 102,166 |
| | 88,043 |
| | 69,473 |
| | 98,141 |
| | 219,610 |
| | 426,672 |
| | 63,939 |
| | 76,800 |
| | 37,400 |
| | 50,000 |
| | 359,684 |
| | 231,354 |
| | 743,304 |
| | 764,668 |
| <u>53,548</u> | <u>4,668,082</u> |
| <u>29,957</u> | <u>1,226,122</u> |
| | (824,161) |
| | (824,161) |
| 29,957 | 401,961 |
| 556,114 | 5,465,511 |
| <u>\$ 586,071</u> | <u>\$ 5,867,472</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, 2019**

| | | |
|--|----|-------------------------|
| Net change in fund balance - governmental funds | \$ | 401,961 |
| <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> | | 731,826 |
| <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 \$416,564 is to decrease net position.</p> | | (416,564) |
| <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 \$745,000.</p> | | 745,000 |
| <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 \$8,286. This results in a increase in net position</p> | | (8,286) |
| <p>Certain expenditures for pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. The County's share of the unrecognized deferred inflows and outflows for TCDRS as of the measurement date must be amortized and the County's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$40,876.</p> | | <u>(40,876)</u> |
| Net position of governmental activities - statement of net position | \$ | <u><u>1,413,061</u></u> |

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

STERLING COUNTY, TEXAS

STATEMENT OF NET POSITION
PROPRIETARY FUND
 SEPTEMBER 30, 2019

| | <u>Nursing Home</u> |
|---|-------------------------|
| ASSETS: | |
| Current Assets: | |
| Cash and cash investments | \$ 416,271 |
| Accounts receivable, net | 120,776 |
| Prepaid expense | <u>59,355</u> |
| Total Current Assets | <u>596,402</u> |
| Noncurrent Assets: | |
| Depreciable capital assets, net | 672,832 |
| Net pension asset | <u>181,570</u> |
| Total Noncurrent Assets | <u>854,402</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>608,750</u> |
| Deferred outflows - pension related | |
| Total Assets and Deferred Outflows of Resources | <u>2,059,554</u> |
| LIABILITIES: | |
| Accounts payable | 30,146 |
| Accrued payroll expenses | 68,013 |
| Due to others | <u>6,229</u> |
| Total Liabilities | <u>104,388</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows - pension related | <u>231,611</u> |
| NET POSITION: | |
| Net investment in capital assets | 672,832 |
| Unrestricted | <u>1,050,723</u> |
| Total Net Position | <u>\$ 1,723,555</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, 2019

| | <u>Nursing Home</u> |
|--|-------------------------|
| OPERATING REVENUE: | |
| Resident revenue | \$ 1,745,920 |
| State QIPP Funds | 253,883 |
| Other operating revenue | 12,585 |
| Donations | <u>3,336</u> |
| Total Operating Revenue | <u>2,015,724</u> |
| OPERATING EXPENSES: | |
| Nursing | 823,849 |
| Medical supplies | 93,208 |
| Consultants and management fees | 214,191 |
| Activities | 25,832 |
| Medical records | 36,023 |
| Dietary | 241,160 |
| Laundry | 123,031 |
| Therapy | 215,723 |
| Other operating | <u>921,794</u> |
| Total Operating Expenses | <u>2,694,811</u> |
| Operating Income | <u>(679,087)</u> |
| NON-OPERATING REVENUE (EXPENSES) | |
| Transfers in | <u>824,161</u> |
| Total Non-operating Revenue (Expenses) | <u>824,161</u> |
| CHANGE IN NET POSITION | 145,074 |
| NET POSITION - BEGINNING | <u>1,578,481</u> |
| NET POSITION - ENDING | <u>\$ 1,723,555</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, 2019

| | <u>Nursing Home</u> |
|---|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Receipts from resident services | \$ 1,758,817 |
| Receipts from state QIPP program | 253,883 |
| Payments to employees and related taxes and benefits | (1,535,695) |
| Payments to consultants and management company | (429,915) |
| Payments to suppliers | (232,523) |
| Payments to others | (408,832) |
| Net cash provided (used) by operating activities | <u>(594,265)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | |
| Operating transfers in | <u>824,161</u> |
| Net cash provided (used) by noncapital financing activities | <u>824,161</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Acquisition and construction of capital assets | <u> </u> |
| Net cash provided (used) by capital and related financing activities | <u> </u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Net cash provided (used) by investing activities | <u> -</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 229,896 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>186,375</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 416,271</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating income (loss) | \$ (679,087) |
| Adjustments to reconcile operating income to net cash used by operating activities: | |
| Depreciation | 63,231 |
| (Increase) decrease in accounts receivable | (4,686) |
| (Increase) decrease in prepaid assets | 6,731 |
| (Increase) decrease in pension related assets | 48,372 |
| Increase (decrease) in accounts payable | (24,900) |
| Increase (decrease) in accrued payroll | (5,588) |
| Increase (Decrease) in due to others | 1,662 |
| Net cash used by operating activities | <u><u>\$ (594,265)</u></u> |

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

STERLING COUNTY, TEXAS

BALANCE SHEET - FIDUCIARY FUNDS

SEPTEMBER 30, 2019

| | <u>Agency Funds</u> |
|----------------------|-------------------------|
| ASSETS | |
| Cash and investments | \$ <u>79,241</u> |
| Total Assets | \$ <u><u>79,241</u></u> |
| LIABILITIES | |
| Due to Others | \$ <u>79,241</u> |
| Total Liabilities | \$ <u><u>79,241</u></u> |

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019

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, 2019

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.

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, 2019

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, 2019 was \$.526117 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, 2019

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, 2019

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 \$105,400 classified as nonspendable at September 30, 2019.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Federal or state funds are restricted for use only for a specific use. The County had \$1,023,939 restricted for road and bridge repairs, \$586,071 for special revenue projects, and \$33,254 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, 2019.

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, 2019

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, 2019, the carrying amount of the County's deposits and certificates of deposit was \$6,251,912. The bank balance at September 30, 2019, was \$6,445,885. The County's cash deposits and certificates of deposit at September 30, 2019, 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, 2019

NOTE 4: DEPOSITS AND INVESTMENTS - continued

The County's investments at September 30, 2019 are as follows:

| | Cost Basis | Fair Value |
|--------------------------|----------------------------|----------------------------|
| Governmental Activities: | | |
| Certificates of deposit | \$ <u>2,100,000</u> | \$ <u>2,100,000</u> |
| | <u>2,100,000</u> | <u>2,100,000</u> |
| Special Revenue Funds | | |
| Certificates of deposit | <u>20,000</u> | <u>20,000</u> |
| | <u>20,000</u> | <u>20,000</u> |
| Total investments | \$ <u><u>2,120,000</u></u> | \$ <u><u>2,120,000</u></u> |

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, 2019, the County was not exposed to custodial credit risk.

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5: CAPITAL ASSETS

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|----------------------|-------------------|--------------------|---------------------|
| PRIMARY GOVERNMENT | | | | |
| Governmental Activities: | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 6,238 | \$ - | \$ - | \$ 6,238 |
| Total capital assets not being depreciated | <u>6,238</u> | <u>-</u> | <u>-</u> | <u>6,238</u> |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 1,503,985 | 115,254 | | 1,619,239 |
| Furniture and equipment | 2,021,885 | 239,352 | | 2,261,237 |
| Vehicles | 942,661 | 421,697 | (166,064) | 1,198,294 |
| Infrastructure | 4,009,883 | | | 4,009,883 |
| Total capital assets being depreciated | <u>8,478,414</u> | <u>776,303</u> | <u>(166,064)</u> | <u>9,088,653</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (754,239) | (54,918) | | (809,157) |
| Furniture and equipment | (1,110,093) | (162,406) | | (1,272,499) |
| Vehicles | (629,733) | (83,890) | 121,587 | (592,036) |
| Infrastructure | (565,121) | (115,350) | | (680,471) |
| Total accumulated depreciation | <u>(3,059,186)</u> | <u>(416,564)</u> | <u>121,587</u> | <u>(3,354,163)</u> |
| Governmental activities capital assets, net | <u>\$ 5,425,466</u> | <u>\$ 359,739</u> | <u>\$ (44,477)</u> | <u>\$ 5,740,728</u> |

A summary of changes in capital assets are as follows:

Depreciation was charged to the functions as follows:

| | |
|--|-------------------|
| Road and bridge | \$ 233,724 |
| County agent | 5,068 |
| County sheriff | 26,420 |
| General government | 83,706 |
| Volunteer fire department | 27,113 |
| Family clinic | 3,310 |
| EMS | 37,223 |
| Total depreciation expense-governmental activiti | <u>\$ 416,564</u> |

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5: CAPITAL ASSETS – continued

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-------------|-----------|-------------------|
| Business type activities: | | | | |
| Capital assets being depreciated | | | | |
| Buildings and improvements | \$ 1,744,540 | \$ | \$ | \$ 1,744,540 |
| Furniture and equipment | 436,685 | _____ | _____ | 436,685 |
| Total capital assets being depreciated | 2,181,225 | - | - | 2,181,225 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,069,458) | (43,134) | _____ | (1,112,592) |
| Furniture and equipment | (375,704) | (20,097) | _____ | (395,801) |
| Total accumulated depreciation | (1,445,162) | (63,231) | - | (1,508,393) |
| Business type activities capital assets, net \$ | 736,063 | \$ (63,231) | \$ - | \$ 672,832 |
| | | | | |
| | Beginning Balance | Increases | Decreases | Ending Balance |
| DISCRETELY PRESENTED COMPONENT UNITS | | | | |
| Capital assets being depreciated | | | | |
| Buildings and improvements | \$ 391,619 | \$ | \$ | \$ 391,619 |
| Furniture and equipment | 256,928 | 6,404 | _____ | 263,332 |
| Total capital assets being depreciated | 648,547 | 6,404 | - | 654,951 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (182,423) | (10,164) | _____ | (192,587) |
| Furniture and equipment | (168,023) | (16,383) | _____ | (184,406) |
| Total accumulated depreciation | (350,446) | (26,547) | - | (376,993) |
| Business type activities capital assets, net \$ | 298,101 | \$ (20,143) | \$ - | \$ 277,958 |

Depreciation was charged to functions as follows:

| | |
|------------------------------------|-----------|
| Sterling County Senior Center | \$ 9,444 |
| Sterling Volunteer Fire Department | 17,103 |
| | \$ 26,547 |

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6: LONG TERM DEBT

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

| | Balance October 1, 2018 | Additions | Deletions | Balance September 30, 2019 |
|-----------------------------|----------------------------|-----------|----------------|----------------------------------|
| Tax Notes | | | | |
| Series 2014 | \$ 1,505,000 | \$ | \$ 745,000 | \$ 760,000 |
| Total Long Term Debt | 1,505,000 | - | 745,000 | 760,000 |

Current Maturities of Long Term Debt are as follows:

| Fiscal Year | Principal | Interest | Total |
|-------------|------------|----------|---------|
| 2020 | 760,000 | 7,182 | 767,182 |
| | \$ 760,000 | 7,182 | 767,182 |

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 780 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

Benefits Provided

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

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7: RETIREMENT PLAN - continued

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 2018 and 2019 were 7.85% and 7.19% respectively. The deposit rate payable by the employee members for the calendar year 2018 and 2019 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, 2019 were \$193,082.

Actuarial Assumptions

The total pension asset at December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|---|
| Valuation Date | December 31, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 0 Years (based on contribution rate calculated in 12/31/18 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, 2018 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 assumptions or methods reflected in the December 31, 2018 actuarial valuation.

Discount Rate

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

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

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2019

NOTE 7: RETIREMENT PLAN - continued

- 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 2019 information for a 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, 2019

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 | 10.50% | 5.40% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index | 18.00% | 8.40% |
| Global Equities | MSCI World (net) Index | 2.50% | 5.70% |
| International Equities – Developed | MSCI Work Ex USA (net) | 10.00% | 5.40% |
| International Equities – Emerging | MSCI Emerging Markets (net) index | 7.00% | 5.90% |
| Investment Grade Bonds | Bloomberg Barclays U.S. Aggregate Bond Index | 3.00% | 1.60% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 12.00% | 4.39% |
| Direct Lending | S&P/LSTA Leveraged Loan Index | 11.00% | 7.95% |
| Distressed Debt | Cambridge Associates Distressed Securities Index | 2.00% | 7.20% |
| REIT Equities | 67% FTSE NAREIT Equity REIT's Index + 33% FRSE EPRA/NAREIT Global Rate Estate Index | 2.00% | 4.15% |
| Master Limited Partnerships (MLP's) | Alerian MLP Index | 3.00% | 5.35% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index | 6.00% | 6.30% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 13.00% | 3.90% |

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

At September 30, 2019, the County reported a net pension asset of \$334,999 for its proportionate share of the TCDRS's net pension liability measured at December 31, 2018. For the year ended September 30, 2019, the County recognized pension expense of \$282,330.

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, 2019

NOTE 7: RETIREMENT PLAN - continued

Changes in the net pension asset for the measurement year ended December 31, 2018 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, 2017 | \$ 8,587,409 | \$ 9,840,324 | \$ (1,252,915) |
| Changes for the year: | | | |
| Service Cost | 408,170 | | 408,170 |
| Interest on total pension liability | 703,994 | | 703,994 |
| Effect of plan changes | | | |
| Effect of economic/demographic gains or losses | (14,093) | | (14,093) |
| Effect of assumptions changes or inputs | | | |
| Refund of contributions | (59,527) | (59,527) | |
| Benefit payments | (561,136) | (561,136) | |
| Administrative expenses | | (7,550) | 7,550 |
| Member contributions | | 179,079 | (179,079) |
| Net investment income | | (186,012) | 186,012 |
| Employer contributions | | 200,824 | (200,824) |
| Other | | (6,186) | 6,186 |
| Balances as of December 31, 2018 | \$ 9,064,817 | \$ 9,399,816 | \$ 334,999 |

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 | \$ 10,079,439 | \$ 9,064,817 | \$ 8,203,906 |
| Fiduciary Net Position | 9,399,817 | 9,399,816 | 9,399,817 |
| Net Pension Liability/(Asset) | \$ 679,622 | \$ (334,999) | \$ (1,195,911) |

At December 31, 2018 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 | | \$ 76,439 |
| Changes in actuarial assumptions | \$ 15,321 | |
| Difference between projected and actual investment earnings | 968,557 | 350,886 |
| Contributions subsequent to the measurement date | 139,278 | |
| Total | \$ 1,123,156 | \$ 427,325 |

STERLING COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7: RETIREMENT PLAN - continued

\$139,278 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, 2019. 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: | |
|--------------------------|------------|
| 2020 | \$ 201,973 |
| 2021 | 82,353 |
| 2022 | 77,631 |
| 2023 | 194,596 |
| 2024 | |
| Thereafter | |
| | \$ 556,553 |

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, 2019, 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, 2019

| | Budgeted Amounts | | Actual | Variance |
|--|---------------------|---------------------|---------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| Revenues | | | | |
| Property taxes | \$ 3,177,218 | \$ 3,177,218 | \$ 3,200,263 | \$ 23,045 |
| Fees | 127,400 | 127,400 | 136,838 | 9,438 |
| Fines and forfeitures | 265,000 | 265,000 | 343,481 | 78,481 |
| Clinic revenue | 135,000 | 135,000 | 108,653 | (26,347) |
| Investment earnings | 20,000 | 20,000 | 58,008 | 38,008 |
| Rental revenues | 2,400 | 2,400 | 2,400 | |
| Intergovernmental | 300,734 | 300,734 | 173,386 | (127,348) |
| EMS revenue | 73,000 | 73,000 | 84,747 | 11,747 |
| Miscellaneous | 318,968 | 318,968 | 248,408 | (70,560) |
| Total Revenues | <u>4,419,720</u> | <u>4,419,720</u> | <u>4,356,184</u> | <u>(63,536)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 784,174 | 808,629 | 566,542 | 242,087 |
| County judge | 95,350 | 95,350 | 94,575 | 775 |
| County and district clerk | 137,524 | 137,524 | 129,550 | 7,974 |
| Justice of the peace | 104,462 | 104,462 | 102,166 | 2,296 |
| County attorney | 91,204 | 91,204 | 88,043 | 3,161 |
| County treasurer | 73,378 | 73,378 | 69,473 | 3,905 |
| County tax collector | 103,318 | 103,318 | 98,141 | 5,177 |
| County building operations | 233,300 | 232,150 | 219,610 | 12,540 |
| County sheriff | 427,736 | 419,740 | 426,672 | (6,932) |
| County agent | 62,173 | 67,954 | 63,939 | 4,015 |
| Trapper | 76,800 | 76,800 | 76,800 | |
| Senior citizens | 37,400 | 37,400 | 37,400 | |
| Volunteer fire department | 50,000 | 50,000 | 50,000 | |
| Clinic | 330,380 | 366,647 | 359,684 | 6,963 |
| EMS | 240,147 | 243,170 | 231,354 | 11,816 |
| Capital outlay | 660,622 | 637,770 | 586,320 | 51,450 |
| Total Expenditures | <u>3,507,968</u> | <u>3,545,496</u> | <u>3,200,269</u> | <u>345,227</u> |
| Excess (deficiency) of revenues over expenditures | <u>911,752</u> | <u>874,224</u> | <u>1,155,915</u> | <u>281,691</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | <u>(911,752)</u> | <u>(911,752)</u> | <u>(824,161)</u> | <u>87,591</u> |
| Total other financing sources (uses) | <u>(911,752)</u> | <u>(911,752)</u> | <u>(824,161)</u> | <u>87,591</u> |
| Net Change in Fund Balance | | (37,528) | 331,754 | 369,282 |
| Fund Balance - Beginning | <u>3,892,454</u> | <u>3,892,454</u> | <u>3,892,454</u> | |
| Fund Balance - Ending | <u>\$ 3,892,454</u> | <u>\$ 3,854,926</u> | <u>\$ 4,224,208</u> | <u>\$ 369,282</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, 2019**

| | Budgeted Amounts | | Actual | Variance |
|--|-------------------|-------------------|---------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| Revenues | | | | |
| Property taxes | \$ 521,909 | \$ 521,909 | \$ 526,912 | \$ 5,003 |
| Licenses and permits | 132,100 | 132,100 | 115,150 | (16,950) |
| Fees | 2,200 | 2,200 | 1,121 | (1,079) |
| Investment earnings | 600 | 600 | 19,061 | 18,461 |
| Intergovernmental | | | | |
| Miscellaneous | 40,000 | 40,000 | 17,480 | (22,520) |
| Total Revenues | <u>696,809</u> | <u>696,809</u> | <u>679,724</u> | <u>(17,085)</u> |
| Expenditures | | | | |
| Commissioner's salary | 82,320 | 82,320 | 82,320 | |
| Road foreman salary | 46,000 | 46,000 | 46,000 | |
| Landfill salary | 4,007 | 4,007 | 3,571 | 436 |
| Cell phone allowance | 1,800 | 1,800 | 1,800 | |
| Road salary | 74,031 | 74,031 | 74,031 | |
| Social security | 15,925 | 15,946 | 15,891 | 55 |
| Group hospital insurance | 77,600 | 77,600 | 76,462 | 1,138 |
| Retirement | 15,322 | 15,329 | 15,278 | 51 |
| Permit and landfill fees | 15,000 | 15,000 | 9,067 | 5,933 |
| Fuel and oil | 30,000 | 39,359 | 39,382 | (23) |
| Supplies | 1,200 | 1,200 | 1,095 | 105 |
| County barn maintenance | 13,024 | 12,996 | 6,697 | 6,299 |
| Telephone | 2,250 | 2,539 | 2,539 | |
| Travel expenses | 5,000 | 4,711 | 2,826 | 1,885 |
| Utilities | 2,350 | 3,314 | 3,046 | 268 |
| Machine parts and repairs | 45,000 | 164,101 | 164,101 | |
| Road materials and repairs | 140,000 | 63,503 | 29,345 | 34,158 |
| Lateral road funds | 6,880 | 6,880 | 6,880 | |
| Miscellaneous expense | 4,100 | 4,100 | 2,193 | 1,907 |
| Professional fees | 15,000 | | | |
| Capital outlay | 100,000 | 62,073 | 67,073 | (5,000) |
| Total Expenditures | <u>696,809</u> | <u>696,809</u> | <u>649,597</u> | <u>47,212</u> |
| Excess (deficiency) of revenues over expenditures | | | <u>30,127</u> | <u>30,127</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | | | | |
| Total other financing sources (uses) | | | | |
| Net Change in Fund Balance | | | 30,127 | 30,127 |
| Fund Balance - Beginning | <u>993,812</u> | <u>993,812</u> | <u>993,812</u> | |
| Fund Balance - Ending | <u>\$ 993,812</u> | <u>\$ 993,812</u> | <u>\$ 1,023,939</u> | <u>\$ 30,127</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

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

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

| | <u>2017</u> | <u>2018</u> |
|---|------------------------------|----------------------------|
| Total Pension Liability | | |
| Service cost | \$ 416,856 | \$ 408,170 |
| Interest (on the Total Pension Liability) | 681,611 | 703,994 |
| Changes of benefit terms | - | - |
| Effect of economic/demographic (gains) | (201,131) | (14,093) |
| Change of assumptions | 45,961 | - |
| Benefit payments, including refunds | <u>(694,438)</u> | <u>(620,663)</u> |
| Net Change in Total Pension Liability | 248,859 | 477,408 |
| Total Pension Liability - Beginning | <u>8,338,550</u> | <u>8,587,409</u> |
| Total Pension Liability - Ending (a) | <u><u>\$ 8,587,409</u></u> | <u><u>\$ 9,064,817</u></u> |
| Plan Fiduciary Net Position | | |
| Contributions - Employer | 203,229 | 200,824 |
| Contributions - Employee | 172,228 | 179,079 |
| Net Investment Income | 1,290,932 | (186,012) |
| Benefit payments, including refunds | (694,438) | (620,663) |
| Administrative Expense | (6,544) | (7,550) |
| Other | <u>(4,347)</u> | <u>(6,186)</u> |
| Net Change in Plan Fiduciary Net Position | 961,060 | (440,508) |
| Plan Fiduciary Net Position - Beginning | <u>8,879,264</u> | <u>9,840,324</u> |
| Plan Fiduciary Net Position - Ending (b) | <u><u>\$ 9,840,324</u></u> | <u><u>\$ 9,399,816</u></u> |
| Net Pension Liability - Ending (a)-(b) | <u><u>\$ (1,252,915)</u></u> | <u><u>\$ (334,999)</u></u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 114.59% | 103.70% |
| Covered Employee Payroll | \$ 2,460,401 | \$ 2,558,266 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | -50.92% | -13.09% |

STERLING COUNTY, TEXAS
Schedule of Employer Contributions
Texas County & District Retirement System
For Fiscal Year 2019

| Year Ending December 31, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll | Actual Contribution as a Percentage of Covered Payroll |
|-----------------------------|---|------------------------------------|--|--------------------------------|---|
| 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% |
| 2018 | 200,824 | 200,824 | - | 2,558,266 | 7.9% |

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 12/31/2018 valuation) |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.75% |
| 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 | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014 |
| Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions | 2015: New inflation, mortality and other assumptions were reflected 2017: New mortality assumptions were reflected |
| Changes in Plan Provisions Reflected in the Schedule | 2015, 2016 and 2018: No changes in plan provisions were reflected 2017: New Annuity purchase Rates were reflected for benefits earned after 2017 |

OTHER SUPPLEMENTARY INFORMATION

STERLING COUNTY, TEXAS

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2019

| | <u>Jury Fund</u> | <u>Records Management</u> | <u>Courthouse Security</u> | <u>Technology Fund</u> |
|---|-----------------------|---------------------------|----------------------------|------------------------|
| ASSETS | | | | |
| Cash and cash investments | \$ 117,263 | \$ 30,138 | \$ 73,546 | \$ 10,135 |
| Investments | 300,000 | | 20,000 | |
| Accrued interest receivable | <u>339</u> | | <u>64</u> | |
| Total Assets | <u>\$ 417,602</u> | <u>\$ 30,138</u> | <u>\$ 93,610</u> | <u>\$ 10,135</u> |
| LIABILITIES | | | | |
| Accrued interest payable | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Revenue | _____ | _____ | _____ | _____ |
| Total Liabilities and deferred inflows of resources | _____ | _____ | _____ | _____ |
| FUND BALANCE | | | | |
| Restricted | 417,602 | 30,138 | 93,610 | 10,135 |
| Unassigned | <u>_____</u> | <u>_____</u> | <u>_____</u> | <u>_____</u> |
| Total Fund Balance | <u>417,602</u> | <u>30,138</u> | <u>93,610</u> | <u>10,135</u> |
| Total Liabilities and Fund Balance | <u>\$ 417,602</u> | <u>\$ 30,138</u> | <u>\$ 93,610</u> | <u>\$ 10,135</u> |

| Court Technology | District Records Archive | Sheriff Special Revenue Fund | Clerk Records Archive | Total Nonmajor Governmental Funds |
|------------------|--------------------------|------------------------------|-----------------------|-----------------------------------|
| \$ 4,764 | \$ 2,341 | \$ 2,237 | \$ 25,244 | \$ 265,668 320,000 403 |
| <u>\$ 4,764</u> | <u>\$ 2,341</u> | <u>\$ 2,237</u> | <u>\$ 25,244</u> | <u>\$ 586,071</u> |
| \$ _____ | \$ _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | _____ | _____ | _____ |
| _____ | _____ | _____ | _____ | _____ |
| 4,764 | 2,341 | 2,237 | 25,244 | 586,071 |
| <u>4,764</u> | <u>2,341</u> | <u>2,237</u> | <u>25,244</u> | <u>586,071</u> |
| <u>\$ 4,764</u> | <u>\$ 2,341</u> | <u>\$ 2,237</u> | <u>\$ 25,244</u> | <u>\$ 586,071</u> |

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2019

| | Jury Fund | Records Management | Courthouse Security | Technology Fund |
|---|------------|-----------------------|------------------------|--------------------|
| | | | | |
| REVENUES: | | | | |
| Property taxes | \$ 28,257 | \$ | \$ | \$ |
| Fees | 5,079 | 4,413 | 13,500 | 12,701 |
| Intergovernmental | 6,409 | 1,544 | | |
| Investment earnings | 3,586 | 478 | 1,240 | 158 |
| | | | | |
| Total Revenues | 43,331 | 6,435 | 14,740 | 12,859 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Salaries and benefits | 3,142 | | | |
| Other operating | 27,425 | 2,463 | 1,981 | 10,999 |
| | | | | |
| Total Expenditures | 30,567 | 2,463 | 1,981 | 10,999 |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | 12,764 | 3,972 | 12,759 | 1,860 |
| OTHER FINANCING SOURCES: | | | | |
| Transfers from other funds | | | | |
| Total Other Financing Sources | | | | |
| NET CHANGE IN FUND BALANCE | 12,764 | 3,972 | 12,759 | 1,860 |
| FUND BALANCE - BEGINNING | 404,838 | 26,166 | 80,851 | 8,275 |
| FUND BALANCE - ENDING | \$ 417,602 | \$ 30,138 | \$ 93,610 | \$ 10,135 |

| Court Technology | District Records Archive | Sheriff Special Revenue Fund | Clerk Records Archive | Total Nonmajor Governmental Funds |
|---------------------|--------------------------------|---------------------------------|--------------------------|--|
| \$ | \$ | \$ | \$ | \$ |
| 678 | 530 | | 4,465 | 28,257 |
| | | 362 | | 41,366 |
| 74 | 2 | | 29 | 8,315 |
| <u>752</u> | <u>532</u> | <u>362</u> | <u>4,494</u> | <u>5,567</u> |
| | | | | |
| | | 1,213 | 6,325 | 3,142 |
| | | | | <u>50,406</u> |
| | | 1,213 | 6,325 | 53,548 |
| | | | | |
| 752 | 532 | (851) | (1,831) | 29,957 |
| <u>752</u> | <u>532</u> | <u>(851)</u> | <u>(1,831)</u> | <u>29,957</u> |
| 4,012 | 1,809 | 3,088 | 27,075 | 556,114 |
| <u>4,764</u> | <u>2,341</u> | <u>2,237</u> | <u>25,244</u> | <u>586,071</u> |

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS

SEPTEMBER 30, 2019

| | Sterling Volunteer Fire Department | Sterling County Senior Citizens | Total Component Units |
|----------------------------------|--|------------------------------------|--------------------------|
| ASSETS | | | |
| Current: | | | |
| Cash and investments | \$ 45,504 | \$ 5,350 | \$ 50,854 |
| Total current assets | 45,504 | 5,350 | 50,854 |
| Noncurrent assets: | | | |
| Property and equipment, net | 92,607 | 185,351 | 277,958 |
| Total noncurrent assets | 92,607 | 185,351 | 277,958 |
| TOTAL ASSETS | 138,111 | 190,701 | 328,812 |
| LIABILITIES | | | |
| Accounts Payable | 1,462 | | 1,462 |
| Total Liabilities | 1,462 | | 1,462 |
| NET POSITION | | | |
| Net investment in capital assets | 92,607 | 185,351 | 277,958 |
| Unrestricted | 44,042 | 5,350 | 49,392 |
| TOTAL NET POSITION | \$ 136,649 | \$ 190,701 | \$ 327,350 |

STERLING COUNTY, TEXAS

COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2019

| | Sterling Volunteer Fire Department | Sterling County Senior Citizens | Total Component Units |
|---|--|------------------------------------|--------------------------|
| REVENUES: | | | |
| Fees and charges for services | \$ | \$ 6,589 | \$ 6,589 |
| Donations | 2,960 | 2,544 | 5,504 |
| Intergovernmental | 49,999 | 37,950 | 87,949 |
| Investment earnings | 13 | | 13 |
| Miscellaneous | 31 | 314 | 345 |
| | <u>53,003</u> | <u>47,397</u> | <u>100,400</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Salaries and benefits | | 24,600 | 24,600 |
| Occupancy costs | 5,052 | 8,505 | 13,557 |
| Repairs and supplies | 33,960 | 11,595 | 45,555 |
| Depreciation | 17,103 | 9,444 | 26,547 |
| Other operating | 5,818 | 4,176 | 9,994 |
| | <u>61,933</u> | <u>58,320</u> | <u>120,253</u> |
| Total Expenditures | <u>61,933</u> | <u>58,320</u> | <u>120,253</u> |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES | (8,930) | (10,923) | (19,853) |
| NET POSITION - BEGINNING OF YEAR | <u>145,579</u> | <u>201,624</u> | <u>347,203</u> |
| NET POSITION - END OF YEAR | <u>\$ 136,649</u> | <u>\$ 190,701</u> | <u>\$ 327,350</u> |

ROBERTS & MCGEE, CPA

104 PINE STREET, SUITE 710
ABILENE, TEXAS 79601
(325) 701-9502

Becky Roberts, CPA
becky.roberts@rm-cpa.net
Cell: 325-665-5239

Stacey McGee, CPA
stacey.mcgee@rm-cpa.net
Cell: 325-201-7244

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, 2019, 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 6, 2020.

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 6, 2020