

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CHEROKEE COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
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CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

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INTRODUCTORY SECTION

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CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2012

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Katherine Pinotti

Byron Underwood

COUNTY AUDITOR

L. H. Crockett

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge
and County Commissioners
Cherokee County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cherokee County, Texas' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, as of September 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2013, on our consideration of Cherokee 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the budgetary comparison information on pages 34 through 36, and the Schedules of Funding Progress on page 37 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee County, Texas' financial statements as a whole. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the financial statements. The combining fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Pavullo, Brown & Hill, LLP

June 3, 2013

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cherokee County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cherokee County, Texas, for the fiscal year ended September 30, 2012. This analysis should be read in conjunction with the financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The assets of Cherokee County exceeded its liabilities at the close of the most recent fiscal year by \$18,369,874 (net assets). Of this amount, \$4,682,580 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets (government-wide) increased by \$708,826
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,977,712, an increase of \$490,247 in comparison with the prior year. Approximately 70% of this total amount, \$4,173,837, is *available for spending* at the County's discretion (unassigned and assigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,147,201 or 19% of the total General Fund expenditures.
- The County's total liabilities (government-wide) decreased by \$798,241 (25%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of Cherokee County's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the County's assets and liabilities. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of Cherokee County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the fiscal year. All changes in net assets 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 and earned, but unused vacation leave).

In the Statement of Net Assets and the Statement of Activities, the County operates the following type of activities:

Governmental Activities – Most of the County's basic services are reported here such as general government, public safety, judicial, community services, and transportation. These activities are principally supported by taxes and intergovernmental revenues.

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. Cherokee 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 Cherokee 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 government-wide financial statements, governmental fund financial statements focus on how cash resources flow into and out of those funds and balances remaining at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, that requires the recognition of revenue when earned, only so long as the funds are collected within the period or soon enough afterwards to be used to pay liabilities of the current period.

Because the focus of 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 County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Cherokee County adopts an annual budget for its General and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and major Special Revenue Funds to demonstrate compliance with this budget.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's own programs.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets exceeded liabilities by \$18,369,874 as of September 30, 2012.

The largest portion of the County's net assets reflects its investment of capital assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CHEROKEE COUNTY NET ASSETS

	Governmental Activities	
	2012	2011
Current and other assets	\$ 9,120,769	\$ 8,856,978
Capital assets	<u>11,692,225</u>	<u>12,045,431</u>
Total assets	<u>20,812,994</u>	<u>20,902,409</u>
Long-term liabilities	792,919	1,442,935
Other liabilities	<u>1,650,201</u>	<u>1,798,426</u>
Total liabilities	<u>2,443,120</u>	<u>3,241,361</u>
Net assets:		
Invested in capital assets, net of related debt	11,444,763	11,068,156
Restricted	2,242,531	2,621,308
Unrestricted	<u>4,682,580</u>	<u>3,971,584</u>
Total net assets	<u>\$ 18,369,874</u>	<u>\$ 17,661,048</u>

Governmental Activities. Governmental activities increased Cherokee County's net assets by \$708,826. A key element of this increase in net assets was a \$2,772,438 or 13% decrease in fiscal year 2012 expenses as compared to fiscal year 2011 expenses. The largest decrease in expenses, \$1,567,683, was in the Infrastructure and Environmental Services function.

CHEROKEE COUNTY CHANGES IN NET ASSETS

	Governmental Activities	
	2012	2011
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 3,448,160	\$ 3,344,028
Operating grants and contributions	1,539,624	2,587,968
Capital grants and contributions	305,399	93,900
General revenues:		
Property taxes	12,230,500	11,900,022
Gain on sale of capital assets	261,602	
Sales and other taxes	1,616,992	1,585,120
Investment income	29,859	36,037
Miscellaneous	110,174	105,548
Total revenues	19,542,310	19,652,623
EXPENSES		
General government	4,228,053	4,555,591
Justice system	2,262,927	2,481,837
Public safety	3,995,289	4,471,081
Corrections and rehabilitation	2,132,975	2,034,060
Health and human services	1,301,228	1,553,329
Community and economic development	233,894	232,845
Infrastructure and environmental	4,648,415	6,216,098
Interest and fiscal charges	30,703	61,081
Total expenses	18,833,484	21,605,922
DECREASE IN NET ASSETS	708,826	(1,953,299)
NET ASSETS, BEGINNING	17,661,048	21,609,219
PRIOR PERIOD ADJUSTMENT	-	(1,994,872)
NET ASSETS, BEGINNING, AS RESTATED	17,661,048	19,614,347
NET ASSETS, ENDING	\$ 18,369,874	\$ 17,661,048

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds. The focus of Cherokee County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Cherokee 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 the County completed the year, its governmental funds, as presented in the balance sheet in this report, reported a *combined* fund balance of \$5,977,712 which is an increase of \$490,247 from last year's total of \$5,487,465.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,147,201. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance both represent 19% of the total General Fund expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Capital Assets. Cherokee County's investment in capital assets for its governmental activities as of September 30, 2012, amounts to \$11,692,225 (net of accumulated depreciation), a decrease of \$353,206 from the prior year. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

CHEROKEE COUNTY CAPITAL ASSETS

	Capital Assets	
	2012	2011
Land	\$ 544,383	\$ 544,383
Buildings	12,423,357	12,327,458
Infrastructure	111,448,764	111,448,764
Improvements	2,627,726	2,249,206
Machinery and other equipment	9,433,512	9,231,413
Less: accumulated depreciation	(124,785,517)	(123,755,793)
Total capital assets, net of accumulated depreciation	<u>\$ 11,692,225</u>	<u>\$ 12,045,431</u>

Additional information regarding the County's capital assets can be found in the notes to financial statements.

Long-term Debt. In the current year, the County made a scheduled principal payment of \$615,000 to retire all outstanding certificates of obligation. Interest expense on certificates of obligation for the year was \$21,525. At September 30, 2012, the County had outstanding notes payable of \$247,462 which were issued in a prior year to acquire road and bridge equipment and which are secured by that equipment. Principal payments of \$114,813 were made on notes payable in the current year, and interest expense on notes payable for the year was \$10,972. Additional information on the County's long-term debt can be found in the notes to the financial statements.

CHEROKEE COUNTY'S OUTSTANDING DEBT

	<u>2012</u>	<u>2011</u>
Certificates of obligation	\$ -	\$ 615,000
Notes payable	247,462	362,275
Compensated absences	223,921	212,240
Other post employment benefits	<u>321,536</u>	<u>253,420</u>
 Total outstanding debt	 <u>\$ 792,919</u>	 <u>\$ 1,442,935</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2012, increased from .5500 per \$100 valuation to .5700 per \$100 valuation.
- Continued increases in the property values in Cherokee County will provide additional tax revenue.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cherokee County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cherokee County Auditor, 502 N. Main Street, Rusk, Texas 75785.

**BASIC
FINANCIAL STATEMENTS**

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CHEROKEE COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 1,403,300
Investments	5,636,755
Accounts receivable, net of allowance	1,888,111
Due from other governments	192,603
Capital assets, net:	
Land	544,383
Buildings and improvements	12,423,357
Infrastructure	111,448,764
Improvements other than buildings	2,627,726
Equipment	9,433,512
Less: accumulated depreciation	(124,785,517)
Total capital assets	<u>11,692,225</u>
 Total assets	 <u>20,812,994</u>
LIABILITIES	
Accounts payable	571,377
Accrued liabilities	6,175
Due to others	953,093
Unearned revenue	119,556
Noncurrent liabilities:	
Due within one year	295,056
Due in more than one year	<u>497,863</u>
Total liabilities	<u>2,443,120</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,444,763
Restricted	2,242,531
Unrestricted	<u>4,682,580</u>
 Total net assets	 <u>\$ 18,369,874</u>

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

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CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses for Services	Program Revenues			Net (Expense) Revenue and Change in Primary Governmental Activities
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 4,228,053	\$ 1,317,826	\$ 11,853	\$ -	\$(2,898,374)
Justice system	2,262,927	829,525	244,434	-	(1,188,968)
Public safety	3,995,289	184,073	678,665	-	(3,132,551)
Corrections and rehabilitation	2,132,975	179,840	6,045	-	(1,947,090)
Health and human services	1,301,228	176,559	472,784	-	(651,885)
Community and economic development	233,894	10,671	-	-	(223,223)
Infrastructure and environmental services	4,648,415	749,666	125,843	305,399	(3,467,507)
Interest and fiscal charges	<u>30,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,703)</u>
Total governmental activities	<u>18,833,484</u>	<u>3,448,160</u>	<u>1,539,624</u>	<u>305,399</u>	<u>(13,540,301)</u>
 Total primary government	 <u>\$ 18,833,484</u>	 <u>\$ 3,448,160</u>	 <u>\$ 1,539,624</u>	 <u>\$ 305,399</u>	 <u>(13,540,301)</u>
 General revenues					
Taxes:					
					8,128,230
					3,476,641
					625,629
					1,593,459
					23,533
					261,602
					29,859
					<u>110,174</u>
					<u>14,249,127</u>
					708,826
					<u>17,661,048</u>
					<u>\$ 18,369,874</u>

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

CHEROKEE COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 199,068	\$ 442,067	\$ 762,165	\$ 1,403,300
Investments	2,152,198	2,763,247	721,310	5,636,755
Receivables (net of allowance for uncollectibles)				
Taxes	1,207,075	356,636	87,392	1,651,103
Accounts	237,008	-	-	237,008
Due from other governments	<u>11,920</u>	<u>-</u>	<u>180,683</u>	<u>192,603</u>
 Total assets	 <u>\$ 3,807,269</u>	 <u>\$ 3,561,950</u>	 <u>\$ 1,751,550</u>	 <u>\$ 9,120,769</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 341,625	\$ 140,133	\$ 89,619	\$ 571,377
Accrued liabilities	6,175	-	-	6,175
Due to others	138,512	780,000	34,581	953,093
Deferred revenues	<u>1,173,756</u>	<u>326,458</u>	<u>112,198</u>	<u>1,612,412</u>
Total liabilities	<u>1,660,068</u>	<u>1,246,591</u>	<u>236,398</u>	<u>3,143,057</u>
Fund balances:				
Restricted for:				
General government	-	-	255,849	255,849
Justice system	-	-	214,711	214,711
Public safety	-	-	382,242	382,242
Corrections and rehabilitation	-	-	50,124	50,124
Community and economic development	-	-	1,331	1,331
Infrastructure and environmental services	-	845,709	-	845,709
Debt service	-	-	53,909	53,909
Assigned for:				
Health and human services	-	-	225,187	225,187
Infrastructure and environmental services	-	1,469,650	94,667	1,564,317
Capital projects	-	-	267,543	267,543
Unassigned	<u>2,147,201</u>	<u>-</u>	<u>(30,411)</u>	<u>2,116,790</u>
Total fund balances	<u>2,147,201</u>	<u>2,315,359</u>	<u>1,515,152</u>	<u>5,977,712</u>
 Total liabilities and fund balance	 <u>\$ 3,807,269</u>	 <u>\$ 3,561,950</u>	 <u>\$ 1,751,550</u>	 <u>\$ 9,120,769</u>

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

CHEROKEE COUNTY, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2012

Amounts reported for governmental activities in the statement
of net assets are different because:

Total fund balance - governmental funds \$ 5,977,712

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 11,692,225

Some of the County's revenues will be collected after year-end, but are not
available soon enough to pay current year's expenditures and therefore are not
reported in the governmental funds. 1,492,856

Net other post employment benefits obligation in governmental activities does
not require current financial resources and therefore are not reported in the
governmental funds balance sheet. (321,536)

Long-term liabilities, including certificates of obligation payable and
compensated absences, are not due and payable in the current year and
accordingly, are not reported in the governmental funds. (471,383)

Net assets of governmental activities \$ 18,369,874

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

CHEROKEE COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 8,121,701	\$ 3,470,455	\$ 628,559	\$ 12,220,715
Sales	1,593,459	-	-	1,593,459
Mixed beverage	23,533	-	-	23,533
Fees of office	938,088	766,877	850,740	2,555,705
Intergovernmental	343,147	118,530	1,227,855	1,689,532
Fines and forfeitures	819,525	-	92,119	911,644
Interest	14,048	6,875	2,759	23,682
Miscellaneous	28,761	8,269	34	37,064
Total revenues	<u>11,882,262</u>	<u>4,371,006</u>	<u>2,802,066</u>	<u>19,055,334</u>
EXPENDITURES				
Current:				
General government	3,739,793	487,861	53,724	4,281,378
Justice system	2,166,245	-	71,429	2,237,674
Public safety	2,698,613	-	1,135,278	3,833,891
Corrections and rehabilitation	1,901,479	-	73,374	1,974,853
Health and human services	330,615	-	957,062	1,287,677
Community and economic development	230,093	-	-	230,093
Infrastructure and environmental services	136,606	3,278,192	399,571	3,814,369
Capital outlay	102,623	605,569	32,667	740,859
Debt service:				
Principal	-	79,813	650,000	729,813
Interest	-	9,047	23,450	32,497
Total expenditures	<u>11,306,067</u>	<u>4,460,482</u>	<u>3,396,555</u>	<u>19,163,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>576,195</u>	<u>(89,476)</u>	<u>(594,489)</u>	<u>(107,770)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	793,087	864,621	1,657,708
Transfers out	(1,657,708)	-	-	(1,657,708)
Proceeds from sale of assets	27,264	517,322	6,406	550,992
Proceeds from insurance	13,128	33,897	-	47,025
Total other financing sources (uses)	<u>(1,617,316)</u>	<u>1,344,306</u>	<u>871,027</u>	<u>598,017</u>
NET CHANGE IN FUND BALANCES	<u>(1,041,121)</u>	<u>1,254,830</u>	<u>276,538</u>	<u>490,247</u>
FUND BALANCES, BEGINNING	<u>2,616,382</u>	<u>1,060,529</u>	<u>1,810,554</u>	<u>5,487,465</u>
PRIOR PERIOD ADJUSTMENT	<u>571,940</u>	<u>-</u>	<u>(571,940)</u>	<u>-</u>
FUND BALANCES, BEGINNING, AS RESTATED	<u>3,188,322</u>	<u>1,060,529</u>	<u>1,238,614</u>	<u>5,487,465</u>
FUND BALANCES, ENDING	<u>\$ 2,147,201</u>	<u>\$ 2,315,359</u>	<u>\$ 1,515,152</u>	<u>\$ 5,977,712</u>

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

CHEROKEE COUNTY, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Amounts reported for governmental activities in the Statement

Net change in fund balance - governmental funds \$ 490,247

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (353,206)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (80,025)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. 729,813

Under the modified accrual basis of accounting used in the governmental funds, expenditures are recognized for transactions that are normally paid with expendable, available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized as an expenditure under the modified accrual basis of accounting until due, rather than as it accrues. (78,003)

Change in net assets of governmental activities \$ 708,826

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

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CHEROKEE COUNTY, TEXAS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

SEPTEMBER 30, 2012

	<u>Agency Fund</u>
ASSETS	
Cash	\$ 1,226,327
Investments	<u>675,137</u>
Total assets	<u>\$ 1,901,464</u>
 LIABILITIES	
Due to others	<u>\$ 1,901,464</u>
Total liabilities	<u>\$ 1,901,464</u>

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

CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the County reflected in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), in Governmental Accounting and Financial Reporting Standards. The most significant accounting and reporting policies of the County are described below.

A. Description of the Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. The governmental activities presented in the government-wide financial statements are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

Cherokee County (the "County") was created and organized in 1846 from Nacogdoches County by an act of the Texas Legislature. The Commissioners' Court, which is comprised of four commissioners and the County Judge, is the governing body of the County. As authorized by the statutes of the State of Texas, the County provides the following services: general government (e.g., tax collection), justice system (e.g., courts, juries, district attorney, etc.), public safety (e.g., sheriff, etc.), corrections (e.g., jail), health and human services (e.g., indigent health care), infrastructure and environmental services (e.g., road maintenance and repair) and economic development.

In determining the financial reporting entity, Cherokee County, Texas complies with the provisions of GASB Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, and includes all component units of which the County appointed a voting majority of the units' board and the County is either able to impose its will on the unit, or a financial benefit or burden relationship exists.

Under these standards, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

(continued)

I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. **Basis of Presentation – Government-wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. **Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

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

Road and Bridge – The Road and Bridge Fund accounts for resources used in the construction and maintenance of County roads and bridges.

The County also reports fiduciary funds:

Agency Funds – 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 the measurement of results of operations.

During the course of operations the County has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, balances between the funds included in governmental activities are eliminated in the preparation of government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. These transfers are reported in fund financial statements but are eliminated in the preparation of government-wide financial statements.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The 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. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, licenses, charges for services, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The budget is prepared by the County Budget Officer (the County Judge) with the assistance of the staff of the County Auditor's office and is approved by the Commissioners' Court following a public hearing.

The appropriated budget is prepared by fund, department, and object. Transfers of appropriations between departments require the approval of the Commissioners' Court. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. Annual appropriations lapse at fiscal year-end.

Classification of revenues and expenditures could differ between presentation in the financial statements and presentation in the budget.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is not employed by the County.

G. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments. From time to time, the County invests its available funds in time deposits and other short-term interest-bearing securities. Time deposits and securities having a maturity date of three months or less from the date of issuance are classified as cash while those with a maturity of more than three months are classified as investments.

The County records investments at fair market value in accordance with provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The reported value of the pool is the same as the fair value of the pool shares. All investment income is recognized as revenue in the appropriate fund's statement of activity and/or statement of revenues, expenditures, and changes in fund balance.

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than an adopted threshold and an estimated useful life in excess of one year. The thresholds adopted by the Commissioners' Court are as follows:

Land and land improvements	Capitalize all
Roads and bridges	\$ 200,000
Machinery, equipment and vehicles	1,500
Buildings and building improvements	5,000

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the County is depreciated using the straight-line method over the following estimated useful lives:

Buildings and building improvements	31 years
Furniture and equipment	5 - 7 years
Vehicles	5 years
Infrastructure	20 - 25 years

I. 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. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the County’s highest level of decision making authority. These amounts cannot be used for any other purpose unless the Commissioners Court removes or changes the specified use by taking the same type of action 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’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners Court.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Program Revenues

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

M. Compensated Absences

The County's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

Accumulated sick leave lapses when employees leave the employ of the County and, upon separation from service, no monetary obligation exists.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Property Taxes

Ad valorem taxes are levied October 1 of each year and are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes become delinquent on February 1 following the year in which levied. Taxes on real property attach as an enforceable lien on January 1 of the year in which levied and are a lien against such property until paid. The combined tax rate for the year ended September 30, 2012, was \$.5700 per \$100 and was allocated as follows:

General fund	\$ 0.3712
General fund - indigent health	0.0030
Debt service fund	0.0308
Road and bridge fund	<u>0.1650</u>
	<u>\$ 0.5700</u>

O. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and 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 Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. The County’s investment policy does not limit the average dollar-weighted maturity of its portfolio in an attempt to manage its exposure to declines in fair market values.

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations, those of its agencies and instrumentalities, or direct obligations of Texas or its agencies instrumentalities that have a fair value of not less than the principal amount of deposits. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. As of September 30, 2012, the carrying value of the County’s deposit balance was fully collateralized with securities held by the pledging financial institution in the County’s name or by FDIC insurance.

Credit Risk – It is the County’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The County’s investment pool is rated AAAM by Standard & Poor’s.

As of September 30, 2012, the County had the following investments subject to interest rate risk and credit risk disclosure requirements:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>
TexStar	\$ 31,690	48

B. Receivables and Allowance for Uncollectible Accounts

Receivables as of year-end for the governmental activities, individual major governmental funds and other governmental funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Taxes receivable:				
Property tax	\$ 915,787	\$ 369,801	\$ 90,618	\$ 1,376,206
Sales tax	317,572	-	-	317,572
Mixed beverage tax	6,318	-	-	6,318
Court fines receivable	3,563,624	-	-	3,563,624
Less: allowance for uncollectibles	(3,359,218)	(13,165)	(3,226)	(3,375,609)
Net accounts receivable	<u>\$ 1,444,083</u>	<u>\$ 356,636</u>	<u>\$ 87,392</u>	<u>\$ 1,888,111</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables and Allowance for Uncollectible Accounts (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Delinquent property taxes	\$ 812,259	\$ -
Court fines	236,908	-
Grant receivable	5,033	-
Sales tax overpayment	-	119,556
Total general fund	<u>1,054,200</u>	<u>119,556</u>
Road and bridge fund:		
Delinquent property taxes	<u>326,458</u>	-
Total road and bridge fund	<u>326,458</u>	-
Nonmajor governmental funds:		
Delinquent property taxes	81,687	
Other	<u>30,511</u>	-
Total nonmajor governmental funds	<u>112,198</u>	-
Total governmental funds	<u>\$ 1,492,856</u>	<u>\$ 119,556</u>

C. Deferred Sales Tax Revenue

In October of 1996, the County entered into an agreement with the State Comptroller to repay \$332,207 of local sales tax which was paid to the County in error. The agreement states that \$1,214 will be withheld from the County's sales tax revenues in October 1996, the first month of repayment, and \$1,107 will be withheld in each subsequent month. The monthly withholdings will continue until 2021 when the entire amount of the overpayment has been repaid. The balance due to the State at September 30, 2012, is \$119,556.

D. Other Liabilities

At September 30, 2012, the County holds \$780,000 on deposit by a third party to cover potential repair expenses in the event of road damages resulting from third party activities. The remaining balance of deposited funds will be refunded to the third party upon completion.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

E. Capital Assets

Capital asset activity for the year ended September 30, 2012, is as follows:

	Balance 09/30/11	Additions	Deletions	Balance 09/30/12
Governmental activities				
Capital assets not depreciated:				
Land	\$ 544,383	\$ -	\$ -	\$ 544,383
Total capital assets not being depreciated	<u>544,383</u>	<u>-</u>	<u>-</u>	<u>544,383</u>
Capital assets being depreciated:				
Buildings	12,327,458	199,919	104,020	12,423,357
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,249,206	378,520	-	2,627,726
Machinery and other equipment	9,231,413	875,953	673,854	9,433,512
Total capital assets being depreciated	135,256,841	1,454,392	777,874	135,933,359
Less: accumulated depreciation:				
Buildings	6,973,592	292,352	48,215	7,217,729
Infrastructure	109,529,404	146,040	-	109,675,444
Improvements	1,039,464	168,192	-	1,207,656
Machinery and other equipment	6,213,333	911,624	440,269	6,684,688
Total capital assets being depreciated	123,755,793	1,518,208	488,484	124,785,517
Total depreciable assets, net	<u>11,501,048</u>	<u>(63,816)</u>	<u>289,390</u>	<u>11,147,842</u>
Total capital assets	<u>\$ 12,045,431</u>	<u>\$ (63,816)</u>	<u>\$ 289,390</u>	<u>\$ 11,692,225</u>

Depreciation expense was charged to functions of the government-wide statement of activities as follows:

Governmental activities:	
General government	\$ 127,109
Justice system	12,602
Public safety	281,201
Corrections and rehabilitation	148,482
Health and human services	6,958
Community and economic development	2,236
Infrastructure and environmental services	<u>939,620</u>
Total governmental activities depreciation expense	<u>\$ 1,518,208</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

F. Interfund Activity

Interfund transfers for the fiscal year ended September 30, 2012, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ 793,087	Road and bridge fund	Supplement fund sources
General fund	<u>864,621</u>	Nonmajor funds	Supplement fund sources
Total transfers	<u>\$ 1,657,708</u>		

G. Long-term Liabilities

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2012.

	<u>Balance September 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2012</u>	<u>Amounts Due Within One Year</u>
Certificates of obligation	\$ 615,000	\$ -	\$ 615,000	\$ -	\$ -
Notes payable	362,275	-	114,813	247,462	82,331
Compensated absences	212,240	236,305	224,624	223,921	212,725
Net OPEB obligation	<u>253,420</u>	<u>264,683</u>	<u>196,567</u>	<u>321,536</u>	<u>-</u>
Total governmental activities	<u>\$ 1,442,935</u>	<u>\$ 500,988</u>	<u>\$ 1,151,004</u>	<u>\$ 792,919</u>	<u>\$ 295,056</u>

The compensated absences and OPEB liability attributable to governmental activities were liquidated primarily by the General Fund in prior years.

Notes Payable

The note payable outstanding at September 30, 2012, was issued for the purpose of obtaining road and bridge equipment. The note is secured by the purchased equipment. The original principal amount of \$333,814 is payable in monthly installments with interest of 3.11%. Final maturity of the note is August 25, 2015.

The annual debt service requirements to maturity for notes payable are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 82,331	\$ 6,529	\$ 88,860
2014	84,928	3,932	88,860
2015	<u>80,203</u>	<u>1,253</u>	<u>81,456</u>
Total	<u>\$ 247,462</u>	<u>\$ 11,714</u>	<u>\$ 259,176</u>

III. OTHER INFORMATION

A. Pension Plan

Plan Description

The County provides retirement, disability, and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 624 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153, or may be accessed online at www.TCDRS.org.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 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 8 years, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any accounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's deposits to the plan with interest and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer with 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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer 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 employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 8.6% for the months of the accounting year in 2011, and 8.88% for the months in the accounting year 2012.

The deposit rate payable by the employee members for calendar year 2012 is the rate of 7.00% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

(continued)

III. OTHER INFORMATION (Continued)

A. Pension Plan (Continued)

Annual Pension Cost

For the employer's accounting year ended September 30, 2012, the annual pension cost for the TCDRS plan was \$696,529 and the actual contributions were \$696,529.

The annual pension cost, percentage of annual pension cost contributed, and net pension obligation for the plan for the current year and each of the two preceding years were as follows:

<u>Accounting Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2010	\$ 669,950	100%	\$ -
September 30, 2011	685,277	100%	-
September 30, 2012	696,529	100%	-

Actuarial Methods and Assumptions

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2010 and December 31, 2011, the basis for determining the contribution rates for calendar years 2011 and 2012. The December 31, 2011 actuarial valuation is the most recent valuation.

Actuarial valuation date	12/31/10	12/31/11
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	20
Asset valuation method		
Subdivision Accumulation Fund	10-yr smoothed value	10-yr smoothed value
Employees Saving Fund	Fund Value	Fund Value
Actuarial assumptions:		
Investment return ¹	8.00%	8.00%
Projected salary increases ¹	5.40%	5.40%
Inflation	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%

¹Includes inflation at the stated rate

(continued)

III. OTHER INFORMATION (Continued)

A. Pension Plan (Continued)

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the funded status of the plan was as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$ 15,194,426	\$ 18,809,583	\$ 3,615,157	80.78%	\$ 7,947,225	45.49%

The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

B. Other Post-employment Benefits

Program Description

In addition to the pension benefits described in Note III. C., as required by state law and defined by the County Policy, the County makes available health care benefits through the Texas Association of Counties Health and Employee Benefits Pool to all employees who retire from the County and who are receiving benefits from the County sponsored retirement program (Texas County and District Retirement System (TCDRS)). The health care plan provides insurance to eligible retirees through the County's group health insurance plan, which covers both active and retired members, until age 65 when retirees become eligible and are required to enroll in Medicare Part B, at which time coverage supplements Medicare.

Current retirees in the health plan and at retirement, active employees that meet the conditions for retirement from TCERS (age 60 and above with 8 years or more of service, 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more) are eligible to remain in the health plan at the flat contribution rate for active and retiree participants.

Funding Policy

The County contributions to the Retiree Health Program consist of a pay-as-you-go monthly contribution rate of \$400 per participant. The County contributions to the plan for fiscal year 2012 were \$196,567. Current retirees contribute to the Retiree Health Program without adjustment for age and sex. Monthly retiree contribution rate for fiscal year 2012 was \$231.

(continued)

III. OTHER INFORMATION (Continued)

B. Other Post-employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post-employment benefit (OPEB) cost (expense) for the Retiree Health Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the fiscal year ended September 30, 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

Annual required contribution (ARC)	\$ 263,845
Interest on net OPEB obligation	11,404
Adjustment to annual required contribution	<u>(10,566)</u>
Annual OPEB cost (expense)	264,683
Contributions made	<u>(196,567)</u>
Change in OPEB obligation	68,116
Net OPEB obligation (asset), beginning	<u>253,420</u>
Net OPEB obligation (asset) ending	<u>\$ 321,536</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2012, and the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 314,276	\$ 218,141	69.4%	\$ 192,789
2011	256,798	196,167	76.4%	253,420
2012	264,683	196,567	74.3%	321,536

(continued)

III. OTHER INFORMATION (Continued)

B. Other Post-employment Benefits (Continued)

Funded Status and Funding Progress

The funded status of the Retiree Health Program as of the most recent valuation date is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2010	\$ -	\$ 2,684,922	\$ 2,684,922	0%	\$ 7,896,947	34.00%

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The ARC for the current year was determined as part of the December 31, 2010 actuarial valuation using the following methods and assumptions:

Actuarial Methods and Assumptions	
Actuarial valuation date	12/31/2010
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of payroll
Amortization period	Open 30-year period
Inflation rate	3.0% per year
Investment rate of return	4.5%, net of expenses
Salary growth rate	3.0% per year
Health care trend	9.0% in 2011 decreasing by .5% over the next 9 years to an ultimate rate of 4.5%

(continued)

III. OTHER INFORMATION (Continued)

C. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The County provides for the management of risks through insurance coverage. The amount of settlements did not exceed insurance coverage for fiscal year 2012.

D. Contingent Liabilities

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grants. In the opinion of the County's management, disallowed costs, if any, would not have a material effect on the County's financial position or results of operations.

The County is involved in certain legal actions and claims arising in the ordinary course of its operations. Although the outcome of such lawsuits and other claims is not presently determinable, management believes that such legal actions should be resolved without a material effect on the financial position of the County.

E. Deficit Fund Equity

At September 30, 2012, the CDBG Grant fund, a nonmajor fund, had a deficit fund balance of \$30,411. In the current fiscal year the County entered into an agreement with a grant subrecipient and the state grantor agency to provide for the repayment of the subrecipient's disallowed costs from a prior grant year. The subrecipient is scheduled to make 24 monthly payments of \$2,035 to the County. The County then remits the same amount to the state grantor agency.

In the current fiscal year, the County recognized an expenditure and liability to the state grantor agency for the full amount to be repaid. The County recognizes revenue for the payments received from the subrecipient as they become available (received within 60 days of year-end). At September 30, 2012, the County had received 7 of the 24 scheduled payments. The subrecipient will make its final payment to the County on March 1, 2014.

F. Restatement of Beginning Fund Balance

In prior years the County reported indigent health care activities as a special revenue fund. In the current year, it was determined that the County does not have any revenues specifically committed or restricted to indigent health care activities that would warrant reporting as a special revenue fund. These activities were reported in the General Fund in fiscal year 2012, and the \$571,940 prior year ending fund balance of the previously reported special revenue fund was added to the current year General Fund beginning fund balance.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CHEROKEE COUNTY, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 7,961,012	\$ 7,961,012	\$ 8,121,701	\$ 160,689
Sales	1,332,725	1,332,725	1,593,459	260,734
Mixed beverage	24,000	24,000	23,533	(467)
Fees of office	624,000	624,000	938,088	314,088
Intergovernmental	216,003	233,312	343,147	109,835
Fines and forfeitures	549,380	549,380	819,525	270,145
Interest	10,248	10,248	14,048	3,800
Miscellaneous	6,000	6,000	28,761	22,761
Total revenues	<u>10,723,368</u>	<u>10,740,677</u>	<u>11,882,262</u>	<u>1,141,585</u>
EXPENDITURES				
Auditor's office	247,926	247,926	241,062	6,864
Information technology	84,360	84,360	86,413	(2,053)
County service officer	91,052	91,052	81,439	9,613
Human resources	67,478	67,478	56,763	10,715
Maintenance - courthouse and annex	351,966	351,966	330,092	21,874
Agricultural department	168,402	168,402	165,292	3,110
Tax assessor-collector	510,616	510,616	481,348	29,268
District clerk	259,330	259,330	251,964	7,366
County clerk	596,543	596,543	573,974	22,569
Child support	74,644	74,644	51,231	23,413
County treasurer	158,748	158,748	154,124	4,624
Sheriff	2,390,176	2,406,155	2,382,956	23,199
Jail	2,019,808	2,019,808	1,877,175	142,633
Drug task officer	51,898	51,898	49,027	2,871
County judge	177,612	177,612	170,285	7,327
County attorney	335,502	335,502	325,706	9,796
District attorney	392,100	392,100	364,845	27,255
Justices of the peace	393,230	393,230	379,100	14,130
Constables	261,152	261,152	247,087	14,065
2nd judicial district court	318,394	318,394	290,808	27,586
Court administrator 2nd court	117,974	117,974	113,549	4,425
369th district court	144,946	144,946	101,319	43,627
County court-at-law	580,866	580,866	546,340	34,526
Other departmental	1,628,470	1,644,800	1,376,273	268,527
Juvenile probation - general fund	75,438	75,438	44,578	30,860

(continued)

CHEROKEE COUNTY, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
Emergency management	\$ 57,274	\$ 57,274	\$ 56,363	\$ 911
DARE program	54,218	54,218	54,636	(418)
Records management	31,000	31,000	25,812	5,188
Mental health advocate	95,480	95,480	86,200	9,280
Adult probation - general fund	22,400	22,400	24,304	(1,904)
Rural addressing	23,563	23,563	23,563	-
Department of public safety	15,225	15,225	12,667	2,558
Solid waste	112,178	112,178	106,631	5,547
Indigent health	613,263	613,263	162,976	450,287
Historical commission	12,000	12,000	10,165	1,835
Total expenditures	<u>12,535,232</u>	<u>12,567,541</u>	<u>11,306,067</u>	<u>1,261,474</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,811,864)</u>	<u>(1,826,864)</u>	<u>576,195</u>	<u>2,403,059</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,538,728)	(1,538,728)	(1,657,708)	(118,980)
Proceeds from sale of assets	-	-	27,264	27,264
Proceeds from insurance	-	-	13,128	13,128
Total other financing sources (uses)	<u>(1,538,728)</u>	<u>(1,538,728)</u>	<u>(1,617,316)</u>	<u>(78,588)</u>
NET CHANGE IN FUND BALANCES	<u>(3,350,592)</u>	<u>(3,365,592)</u>	<u>(1,041,121)</u>	<u>2,324,471</u>
FUND BALANCES, BEGINNING, RESTATED	<u>3,188,322</u>	<u>3,188,322</u>	<u>3,188,322</u>	<u>-</u>
FUND BALANCES, ENDING	<u><u>\$ (162,270)</u></u>	<u><u>\$ (177,270)</u></u>	<u><u>\$ 2,147,201</u></u>	<u><u>\$ 2,324,471</u></u>

CHEROKEE COUNTY, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

ROAD AND BRIDGE

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 3,306,306	\$ 3,306,306	\$ 3,470,455	\$ 164,149
Fees of office	725,000	725,000	766,877	41,877
Intergovernmental	45,000	54,266	118,530	64,264
Interest	2,470	2,470	6,875	4,405
Miscellaneous	<u>-</u>	<u>-</u>	<u>8,269</u>	<u>8,269</u>
Total revenues	<u>4,078,776</u>	<u>4,088,042</u>	<u>4,371,006</u>	<u>282,964</u>
EXPENDITURES				
General government	522,164	522,164	487,861	34,303
Infrastructure and environmental services	4,006,181	4,015,447	3,278,192	737,255
Capital outlay	343,518	830,899	605,569	225,330
Debt service:				
Principal	-	-	79,813	(79,813)
Interest	<u>-</u>	<u>-</u>	<u>9,047</u>	<u>(9,047)</u>
Total expenditures	<u>4,871,863</u>	<u>5,368,510</u>	<u>4,460,482</u>	<u>908,028</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(793,087)</u>	<u>(1,280,468)</u>	<u>(89,476)</u>	<u>1,190,992</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	793,087	793,087	793,087	-
Proceeds from sale of assets	-	467,381	517,322	49,941
Proceeds from insurance	<u>-</u>	<u>-</u>	<u>33,897</u>	<u>33,897</u>
Total other financing sources (uses)	<u>793,087</u>	<u>1,260,468</u>	<u>1,344,306</u>	<u>83,838</u>
NET CHANGE IN FUND BALANCES	-	(20,000)	1,254,830	1,274,830
FUND BALANCES, BEGINNING	<u>1,060,529</u>	<u>1,060,529</u>	<u>1,060,529</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,060,529</u>	<u>\$ 1,040,529</u>	<u>\$ 2,315,359</u>	<u>\$ 1,274,830</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY, TEXAS

TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	\$ 14,633,972	\$ 17,707,247	\$ 3,073,275	82.64%	\$ 7,790,855	39.45%
12/31/2010	15,066,781	18,437,437	3,370,656	81.72%	7,896,947	42.68%
12/31/2011	15,194,426	18,809,583	3,615,157	80.78%	7,947,225	45.49%

CHEROKEE COUNTY, TEXAS

RETIREE HEALTH PROGRAM

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2008 ¹	\$ -	\$ 3,191,774	\$ 3,191,774	- %	\$ 7,490,606	42.61%
12/31/2010	-	2,684,922	2,684,922	- %	7,896,947	34.00%

¹GASB Statement 45 was first implemented in the fiscal year ended September 30, 2009.
The December 31, 2008 actuarial valuation was the first valuation performed for this plan.

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**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
ASSETS					
Cash	\$ 43,366	\$ 35,720	\$ 386,328	\$ 18,646	\$ 80,643
Investments	110,258	89,367	1,532	-	264,457
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	-
Due from other governments	93,244	-	52,858	-	-
Total assets	\$ 246,868	\$ 125,087	\$ 440,718	\$ 18,646	\$ 345,100
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 21,681	\$ 30,420	\$ 8,226	\$ -	\$ 29,292
Due to others	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	21,681	30,420	8,226	-	29,292
Fund balances:					
Restricted for:					
General government	-	-	255,849	-	-
Justice system	-	-	170,597	-	-
Public safety	-	-	-	18,646	315,808
Corrections and rehabilitation	-	-	4,715	-	-
Community and economic development	-	-	1,331	-	-
Debt service	-	-	-	-	-
Assigned for:					
Health and human services	225,187	-	-	-	-
Infrastructure and environmental services	-	94,667	-	-	-
Capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	225,187	94,667	432,492	18,646	315,808
Total liabilities and fund balances	\$ 246,868	\$ 125,087	\$ 440,718	\$ 18,646	\$ 345,100

Special Revenue

Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 45,409	\$ 44,114	\$ 23,419	\$ 24,369	\$ 100	\$ 6,281	\$ 53,770	\$ 762,165
-	-	-	-	-	41,923	213,773	721,310
-	-	-	-	-	87,392	-	87,392
-	-	-	-	34,581	-	-	180,683
<u>\$ 45,409</u>	<u>\$ 44,114</u>	<u>\$ 23,419</u>	<u>\$ 24,369</u>	<u>\$ 34,681</u>	<u>\$ 135,596</u>	<u>\$ 267,543</u>	<u>\$ 1,751,550</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,619
-	-	-	-	34,581	-	-	34,581
-	-	-	-	30,511	81,687	-	112,198
-	-	-	-	65,092	81,687	-	236,398
-	-	-	-	-	-	-	255,849
-	44,114	-	-	-	-	-	214,711
-	-	23,419	24,369	-	-	-	382,242
45,409	-	-	-	-	-	-	50,124
-	-	-	-	-	-	-	1,331
-	-	-	-	-	53,909	-	53,909
-	-	-	-	-	-	-	225,187
-	-	-	-	-	-	-	94,667
-	-	-	-	-	-	267,543	267,543
-	-	-	-	(30,411)	-	-	(30,411)
<u>45,409</u>	<u>44,114</u>	<u>23,419</u>	<u>24,369</u>	<u>(30,411)</u>	<u>53,909</u>	<u>267,543</u>	<u>1,515,152</u>
<u>\$ 45,409</u>	<u>\$ 44,114</u>	<u>\$ 23,419</u>	<u>\$ 24,369</u>	<u>\$ 34,681</u>	<u>\$ 135,596</u>	<u>\$ 267,543</u>	<u>\$ 1,751,550</u>

CHEROKEE COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
REVENUES					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fees of office	176,559	346,648	210,080	-	-
Intergovernmental	470,235	15,758	242,340	18,292	462,915
Fines and forfeitures	-	-	70,437	-	11,760
Interest	445	200	4	30	647
Miscellaneous	-	-	-	-	34
Total revenues	<u>647,239</u>	<u>362,606</u>	<u>522,861</u>	<u>18,322</u>	<u>475,356</u>
EXPENDITURES					
Current:					
General government	-	-	53,724	-	-
Justice system	-	-	60,172	-	-
Public safety	-	-	235,265	2,899	812,644
Corrections and rehabilitation	-	-	1,330	-	-
Health and human services	957,062	-	-	-	-
Infrastructure and environmental services	-	399,571	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	35,000	-	-	-
Interest	-	1,925	-	-	-
Total expenditures	<u>957,062</u>	<u>436,496</u>	<u>350,491</u>	<u>2,899</u>	<u>812,644</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(309,823)</u>	<u>(73,890)</u>	<u>172,370</u>	<u>15,423</u>	<u>(337,288)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	345,701	106,907	118,980	-	243,033
Proceeds from sale of assets	-	-	-	-	6,406
Total other financing sources and uses	<u>345,701</u>	<u>106,907</u>	<u>118,980</u>	<u>-</u>	<u>249,439</u>
NET CHANGE IN FUND BALANCES	35,878	33,017	291,350	15,423	(87,849)
FUND BALANCES, BEGINNING, RESTATED	<u>189,309</u>	<u>61,650</u>	<u>141,142</u>	<u>3,223</u>	<u>403,657</u>
FUND BALANCES, ENDING	<u>\$ 225,187</u>	<u>\$ 94,667</u>	<u>\$ 432,492</u>	<u>\$ 18,646</u>	<u>\$ 315,808</u>

<u>Jail Commissary</u>	<u>District Attorney LEF Special Account</u>	<u>Sheriff LEF Account</u>	<u>Constables LEF Special</u>	<u>CDBG Grant</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 628,559	\$ -	\$ 628,559
117,453	-	-	-	-	-	-	850,740
-	-	-	-	18,315	-	-	1,227,855
-	4,985	4,493	444	-	-	-	92,119
-	-	-	-	-	998	435	2,759
-	-	-	-	-	-	-	34
<u>117,453</u>	<u>4,985</u>	<u>4,493</u>	<u>444</u>	<u>18,315</u>	<u>629,557</u>	<u>435</u>	<u>2,802,066</u>
-	-	-	-	-	-	-	53,724
-	11,257	-	-	-	-	-	71,429
-	-	35,044	600	48,826	-	-	1,135,278
72,044	-	-	-	-	-	-	73,374
-	-	-	-	-	-	-	957,062
-	-	-	-	-	-	-	399,571
-	-	-	-	-	-	32,667	32,667
-	-	-	-	-	615,000	-	650,000
-	-	-	-	-	21,525	-	23,450
<u>72,044</u>	<u>11,257</u>	<u>35,044</u>	<u>600</u>	<u>48,826</u>	<u>636,525</u>	<u>32,667</u>	<u>3,396,555</u>
<u>45,409</u>	<u>(6,272)</u>	<u>(30,551)</u>	<u>(156)</u>	<u>(30,511)</u>	<u>(6,968)</u>	<u>(32,232)</u>	<u>(594,489)</u>
-	-	-	-	-	-	50,000	864,621
-	-	-	-	-	-	-	6,406
-	-	-	-	-	-	50,000	871,027
45,409	(6,272)	(30,551)	(156)	(30,511)	(6,968)	17,768	276,538
-	50,386	53,970	24,525	100	60,877	249,775	1,238,614
<u>\$ 45,409</u>	<u>\$ 44,114</u>	<u>\$ 23,419</u>	<u>\$ 24,369</u>	<u>\$(30,411)</u>	<u>\$ 53,909</u>	<u>\$ 267,543</u>	<u>\$ 1,515,152</u>

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SINGLE AUDIT SECTION

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**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***

Honorable County Judge and Members of the
Commissioners' Court of Cherokee County
Rusk, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, as of and for the year ended September 30, 2012, and have issued our report thereon dated June 3, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Commissioners Court, others within the County, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pavullo, Brown & Hill, LLP

June 3, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable County Judge and Members of the
Commissioners' Court of
Cherokee County, Texas

Compliance

We have audited Cherokee County, Texas' compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Cherokee County, Texas' major federal programs for the year ended September 30, 2012. Cherokee County, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cherokee County's management. Our responsibility is to express an opinion on Cherokee County, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, Cherokee County, Texas, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cherokee County Texas' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Cherokee County's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Cherokee County's compliance but not to provide an opinion on the effectiveness of Cherokee County's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Parillo, Brown & Hill, LLP

June 3, 2013

CHEROKEE COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through the Texas Department of Agriculture			
Community Development Block Grant	14.228	727016	\$(48,826)
Total Passed through the Texas Department of Agriculture			(48,826)
Passed through the General Land Office			
Community Development Block Grant - Hurricane Ike	14.228	10-5023-000-4997	75,462
Total Passed through the General Land Office			75,462
Total U. S. Department of Housing and Urban Development			26,636
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Direct Program:			
State Criminal Alien Assistance Program	16.606	2011-AP-BX-0003	6,045
Total Direct Program			6,045
Total U. S. Department of Justice			6,045
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through Texas Department of Transportation:			
Airport Improvement Project	20.106	1110JCKSN	305,399
Total Passed through Texas Department of Transportation			305,399
Total U. S. Department of Transportation			305,399
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through the Texas Department of State Health Services:			
Public Health Emergency Preparedness	93.069	2011-038799-001	46,186
Public Health Emergency Preparedness	93.069	2013-041423-003	4,384
Subtotal CFDA # 93.069			50,570
Title X	93.217	2013-043207	46,355
Immunization Branch - Locals	93.268	2012-039520-001	51,969
Immunization Branch - Locals	93.268	2013-041423-001	4,259
Subtotal CFDA # 93.268			56,228
Breast and Cervical Cancer Services	93.283	2011-038364-001	24,750
Breast and Cervical Cancer Services	93.283	2012-041309	9,716
Subtotal CFDA # 93.283			34,466
Title XX - CHS	93.667	2012-039853	7,554
RLSS/Local Public Health System	93.991	2012-039484-001	5,980
Total Passed through the Texas Department of State Health Services			201,153

(continued)

CHEROKEE COUNTY, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> (Continued)			
Passed through the Texas Department of Family and Protective Services:			
Title IV-E Legal Services	93.658	23938997	\$ <u>2,549</u>
Total Passed through the Texas Department of Family and Protective Services:			<u>2,549</u>
Total U. S. Department of Health and Human Services			<u>203,702</u>
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through Texas Department of Public Safety:			
Homeland Security Grant Program - SHSP	97.073	2010-SS-T0-0008	110,894
Homeland Security Grant Program - SHSP LETPA	97.073	2010-SS-T0-0008	<u>15,769</u>
Total Passed through Texas Department of Public Safety			<u>126,663</u>
Total U. S. Department of Homeland Security			<u>126,663</u>
TOTAL FEDERAL EXPENDITURES			\$ <u>668,445</u>

CHEROKEE COUNTY, TEXAS

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2012

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Cherokee County. The County's reporting entity is defined in Note 1 of the financial statements. Federal awards received directly from federal agencies, as well as awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? None

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditors' report issued Unqualified
on compliance for major programs

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of OMB Circular A-133 None

Identification of major programs:

CFDA Number(s)	Name of Federal/State Program or Cluster:
20.106	Airport Improvement Program
97.073	Homeland Security Grant Program - SHSP

Dollar threshold used to distinguish between type A
and type B federal programs \$300,000

Auditee qualified as low-risk auditee under Section
510(a) of OMB Circular A-133? No

**Findings Relating to the Financial Statements Which
Are Required to be Reported in Accordance With
Government Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

CHEROKEE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Item 2010-4:</u>	Immunization, RLSS/LPHS, Bioterrorism, Breast and Cervical Cancer Services
<u>Condition:</u>	This finding was a material weakness stating that no controls were in place to ensure the proper distribution of employee salaries across federal award programs and non-federal award programs.
<u>Recommendation:</u>	The auditor recommended that procedures be implemented to ensure that employees certify a personnel activity report that would provide adequate documentation of the employee's actual activity.
<u>Current Status:</u>	This matter has been resolved.