

**CHEROKEE COUNTY, TEXAS**

**ANNUAL FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2014**



**CHEROKEE COUNTY, TEXAS**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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**CHEROKEE COUNTY, TEXAS**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**(Continued)**

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# **INTRODUCTORY SECTION**

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**CHEROKEE COUNTY, TEXAS**

**SEPTEMBER 30, 2014**

**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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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Cherokee County, Texas as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County, Texas, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As described in the notes to the financial statements, in 2014, the County adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5–10 and 33–36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cherokee County, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County, Texas' internal control over financial reporting and compliance.

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
June 22, 2015

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**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, 2014. 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 \$17,770,048 (net position). Of this amount, \$6,222,719 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position (government-wide) decreased by \$229,667.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,293,688, a decrease of \$257,074 in comparison with the prior year. Approximately 82% of this total amount, \$5,135,427, 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 \$2,881,771 or 23% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) increased by \$61,863 (8%) 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 Position presents information on all of the County's assets and liabilities. Over time, increases and decreases in net position 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 position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

In the Statement of Net Position 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 position may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets exceeded liabilities by \$17,770,048 as of September 30, 2014.

The largest portion of the County's net position 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 POSITION

	Governmental Activities	
	2014	2013
Current and other assets	\$ 10,117,313	\$ 9,822,198
Capital assets	<u>10,607,150</u>	<u>10,649,743</u>
Total assets	<u>20,724,463</u>	<u>20,471,941</u>
Long-term liabilities	834,473	772,610
Other liabilities	<u>2,119,942</u>	<u>1,699,616</u>
Total liabilities	<u>2,954,415</u>	<u>2,472,226</u>
Net position:		
Net investment in capital assets	10,389,068	10,484,612
Restricted	1,158,261	1,830,582
Unrestricted	<u>6,222,719</u>	<u>5,684,521</u>
Total net position	<u>\$ 17,770,048</u>	<u>\$ 17,999,715</u>

**Governmental Activities.** Governmental activities decreased Cherokee County's net position by \$229,667. A key element of this decrease in net position being smaller than last year was a \$113,769 or 1% decrease in fiscal year 2014 expenses as compared to fiscal year 2013 expenses. The largest decrease in expenses, \$792,027, was in the Infrastructure and Environmental Services function.

## CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2014	2013
<b>REVENUES</b>		
Program revenues:		
Fees, fines, and charges for services	\$ 3,727,043	\$ 3,578,702
Operating grants and contributions	1,788,433	1,892,436
General revenues:		
Property taxes	12,710,507	12,641,691
Sales and other taxes	1,753,179	1,851,230
Gain on sale of capital assets	-	8,191
Investment income	36,349	25,000
Miscellaneous	22,310	13,848
Total revenues	20,037,821	20,011,098
<b>EXPENSES</b>		
General government	4,592,525	4,493,170
Justice system	3,312,138	3,149,639
Public safety	3,021,768	3,121,000
Corrections and rehabilitation	2,282,294	2,159,420
Health and human services	1,828,478	1,433,883
Community and economic development	229,085	228,951
Infrastructure and environmental	4,996,638	5,788,665
Interest and fiscal charges	4,562	6,529
Total expenses	20,267,488	20,381,257
<b>DECREASE IN NET POSITION</b>	( 229,667)	( 370,159)
<b>NET POSITION, BEGINNING</b>	17,999,715	18,369,874
<b>NET POSITION, ENDING</b>	\$ 17,770,048	\$ 17,999,715

### 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 \$6,293,688 which is an decrease of \$257,074 from last year's total of \$6,550,762.

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 \$2,881,771. 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 23% of the total General Fund expenditures.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$233,612. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$955,483 less than final budgeted appropriations.

## CAPITAL ASSETS

Cherokee County's investment in capital assets for its governmental activities as of September 30, 2014, amounts to \$115,582 (net of accumulated depreciation), a decrease of \$4,562 from the prior year. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

### CHEROKEE COUNTY CAPITAL ASSETS

	Capital Assets	
	2014	2013
Land	\$ 544,383	\$ 544,383
Buildings	12,467,846	12,423,357
Infrastructure	111,448,764	111,448,764
Improvements	2,627,726	2,627,726
Machinery and other equipment	10,908,514	9,667,932
Less: accumulated depreciation	<u>( 127,390,083)</u>	<u>( 126,062,419)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 10,607,150</u>	<u>\$ 10,649,743</u>

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

## LONG-TERM DEBT

At September 30, 2014, the County had outstanding notes payable of \$218,082 which \$168,533 was issued in the current year. Principal payments of \$115,582 were made on notes payable in the current year, and interest expense on notes payable for the year was \$4,562. 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>2014</u>	<u>2013</u>
Notes payable	\$ 218,082	\$ 165,131
Compensated absences	254,883	255,064
Other post employment benefits	<u>361,508</u>	<u>352,415</u>
Total outstanding debt	<u>\$ 834,473</u>	<u>\$ 772,610</u>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2015, saw no increase from the prior year, and remained at .5900 per \$100 valuation.
- Continued increases in the property values in Cherokee County are expected to provide an additional \$90,963 of property tax revenue as compared to the fiscal year ended September 30, 2015.

### 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 POSITION

SEPTEMBER 30, 2014

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 74,129
Investments	7,694,320
Receivables, net of allowance	2,147,454
Due from other governments	201,410
Capital assets, net:	
Land	544,383
Buildings and improvements	12,467,846
Infrastructure	111,448,764
Improvements other than buildings	2,627,726
Equipment	10,908,514
Less: accumulated depreciation	( 127,390,083)
Total capital assets	<u>10,607,150</u>
Total assets	<u>20,724,463</u>
<b>LIABILITIES</b>	
Accounts payable	663,439
Accrued liabilities	279,334
Due to others	1,084,181
Unearned revenue	92,988
Noncurrent liabilities:	
Due within one year	178,761
Due in more than one year	<u>655,712</u>
Total liabilities	<u>2,954,415</u>
<b>NET POSITION</b>	
Net investment in capital assets	10,389,068
Restricted	1,158,261
Unrestricted	<u>6,222,719</u>
Total net position	<u>\$ 17,770,048</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, 2014**

Functions/Programs	Expenses for Services	Program Revenues		Net (Expense) Revenue and Change in Primary Government Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government				
Governmental activities:				
General government	\$ 4,592,525	\$ 1,233,536	\$ 16,352	\$( 3,342,637)
Justice system	3,312,138	997,398	812,671	( 1,502,069)
Public safety	3,021,768	261,735	31,578	( 2,728,455)
Corrections and rehabilitation	2,282,294	119,256	-	( 2,163,038)
Health and human services	1,828,478	182,269	868,361	( 777,848)
Community and economic development	229,085	-	-	( 229,085)
Infrastructure and environmental services	4,996,638	932,849	59,471	( 4,004,318)
Interest and fiscal charges	4,562	-	-	( 4,562)
Total governmental activities	<u>20,267,488</u>	<u>3,727,043</u>	<u>1,788,433</u>	<u>( 14,752,012)</u>
Total primary government	<u>\$ 20,267,488</u>	<u>\$ 3,727,043</u>	<u>\$ 1,788,433</u>	<u>( 14,752,012)</u>
General revenues				
Taxes:				
				9,019,599
				3,688,279
				2,629
				1,727,508
				25,671
				36,349
				22,310
				<u>14,522,345</u>
				( 229,667)
				<u>17,999,715</u>
				<u>\$ 17,770,048</u>

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

**CHEROKEE COUNTY, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2014**

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 74,129	\$ 74,129
Investments	3,936,402	3,204,340	553,578	7,694,320
Due from other funds	-	-	862,577	862,577
Receivables (net of allowance for uncollectibles)				
Taxes	1,332,906	401,697	21,061	1,755,664
Accounts	293,190	98,600	-	391,790
Due from other governments	20,119	-	181,291	201,410
Total assets	5,582,617	3,704,637	1,692,636	10,979,890
<b>LIABILITIES</b>				
Accounts payable	336,499	192,982	133,958	663,439
Accrued liabilities	197,080	40,684	41,570	279,334
Due to other funds	670,481	170,195	21,901	862,577
Due to others	109,020	965,000	10,161	1,084,181
Unearned revenues	92,988	-	-	92,988
Total liabilities	1,406,068	1,368,861	207,590	2,982,519
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable - property taxes	996,655	384,050	18,764	1,399,469
Unavailable - court fines and fees	293,090	-	-	293,090
Unavailable - grants	5,033	-	6,091	11,124
Total deferred inflows of resources	1,294,778	384,050	24,855	1,703,683
<b>FUND BALANCES</b>				
Restricted for:				
General government	-	-	544,010	544,010
Justice system	-	-	460,481	460,481
Public safety	-	-	67,075	67,075
Corrections and rehabilitation	-	-	30,658	30,658
Debt service	-	-	56,037	56,037
Assigned for:				
Health and human services	-	-	52,366	52,366
Infrastructure and environmental services	-	1,951,726	181,262	2,132,988
Capital projects	-	-	74,293	74,293
Unassigned	2,881,771	-	( 5,991)	2,875,780
Total fund balances	2,881,771	1,951,726	1,460,191	6,293,688
Total liabilities, deferred inflows and fund balance	\$ 5,582,617	\$ 3,704,637	\$ 1,692,636	\$ 10,979,890

**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 POSITION**

**SEPTEMBER 30, 2014**

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

Total fund balance - governmental funds	\$ 6,293,688
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,607,150
Some of the County's assets are not available to pay for current period expenditures and, therefore, are deferred as unavailable revenue in the funds.	1,703,683
The net other post employment benefits obligation reported in the governmental activities does not require the use of current financial resources and, therefore, is not reported in the governmental funds.	( 9,093)
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>( 825,380)</u>
Net position of governmental activities	\$ <u>17,770,048</u>

**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, 2014**

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 8,946,180	\$ 3,654,263	\$ 1,726	\$ 12,602,169
Sales	1,727,508	-	-	1,727,508
Mixed beverage	25,671	-	-	25,671
Fees of office	948,736	906,198	986,518	2,841,452
Intergovernmental	300,985	50,227	1,413,205	1,764,417
Fines and forfeitures	790,040	-	96,042	886,082
Interest	26,147	8,381	1,821	36,349
Miscellaneous	22,276	-	34	22,310
Total revenues	<u>12,787,543</u>	<u>4,619,069</u>	<u>2,499,346</u>	<u>19,905,958</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,169,527	524,133	64,753	4,758,413
Justice system	2,374,137	-	918,973	3,293,110
Public safety	2,810,179	-	35,283	2,845,462
Corrections and rehabilitation	2,042,786	-	86,856	2,129,642
Health and human services	332,792	-	1,484,307	1,817,099
Community and economic development	226,824	-	-	226,824
Infrastructure and environmental services	146,555	3,456,712	498,809	4,102,076
Capital outlay	292,800	580,729	242,918	1,116,447
Debt service:				
Principal	-	115,582	-	115,582
Interest	-	4,562	-	4,562
Total expenditures	<u>12,395,600</u>	<u>4,681,718</u>	<u>3,331,899</u>	<u>20,409,217</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>391,943</u>	<u>( 62,649)</u>	<u>( 832,553)</u>	<u>( 503,259)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	672,941	672,941
Transfers out	( 672,941)	-	-	( 672,941)
Proceeds from issuance of debt	79,000	89,533	-	168,533
Proceeds from insurance	58,720	18,932	-	77,652
Total other financing sources (uses)	<u>( 535,221)</u>	<u>108,465</u>	<u>672,941</u>	<u>246,185</u>
<b>NET CHANGE IN FUND BALANCES</b>	( 143,278)	45,816	( 159,612)	( 257,074)
<b>FUND BALANCES, BEGINNING</b>	<u>3,025,049</u>	<u>1,905,910</u>	<u>1,619,803</u>	<u>6,550,762</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,881,771</u>	<u>\$ 1,951,726</u>	<u>\$ 1,460,191</u>	<u>\$ 6,293,688</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, 2014**

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

Net change in fund balance - governmental funds	\$( 257,074)
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.	( 42,593)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	131,863
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	115,582
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>( 8,912)</u>
Change in net position of governmental activities	<u>\$( 229,667)</u>

**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, 2014**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ <u>2,021,073</u>
Total assets	<u>2,021,073</u>
<b>LIABILITIES</b>	
Due to others	<u>2,021,073</u>
Total liabilities	\$ <u><u>2,021,073</u></u>

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

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# CHEROKEE COUNTY, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2014

### 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 position 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. Under this standard, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

#### 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.

#### **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.

#### **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*. 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

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. Capital assets are 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.

**J. Fund Balance Flow Assumption**

Sometimes County 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 County’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 Position Flow Assumption**

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**L. Program Revenues**

Amounts reported as program revenues in the government-wide financial statements 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 collected for specific purposes, 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.

**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, 2014, was \$.5900 per \$100 and was allocated as follows:

General fund	\$ 0.4062
General fund - indigent health	0.0088
Road and bridge fund	<u>0.1750</u>
	<u>\$ 0.5900</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.

**P. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, court fines and fees, and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Deficit Fund Equity**

At September 30, 2014, the CDBG Grant fund, a nonmajor fund, had a deficit fund balance of \$5,991. In fiscal year 2013, 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.

The County recognized an expenditure and liability to the state grantor agency for the full amount that was 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).

## **III. DETAILED NOTES ON ALL FUNDS**

### **A. Cash Deposits with Financial Institutions**

*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, 2014, 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.

## B. Investments

The County invests in local government investment pools and reports these amounts at fair value as cash equivalents. As of September 30, 2014, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>	<u>S&amp;P Rating</u>
TexStar	\$ 31,732	51	AAAm
TexPool	3	48	AAAm

The County utilizes a pooled investment concept for most of its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

Authorized investments for the County include obligations of the United States, or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; obligations of states agencies and other local governments having an investment rating of not less than A or its equivalent; certificates of deposit that are guaranteed by the Federal Deposit Insurance Corporation and other investments authorized by the statutes governing public funds investment pools.

*Interest Rate Risk.* In accordance with its investment policy, the County manages its exposure to declines in fair market value by limiting the weighted average maturity of the investment portfolios to a maximum of 180 days.

*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.

## C. 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	\$ 1,076,898	\$ 416,525	\$ 21,838	\$ 1,515,261
Sales tax	287,333	-	-	287,333
Mixed beverage tax	7,012	-	-	7,012
Court fines receivable	4,687,170	-	-	4,687,170
Other	100	98,600	-	98,700
Less: allowance for uncollectibles	<u>( 4,432,417)</u>	<u>( 14,828)</u>	<u>( 777)</u>	<u>( 4,448,022)</u>
Net accounts receivable	<u>\$ 1,626,096</u>	<u>\$ 500,297</u>	<u>\$ 21,061</u>	<u>\$ 2,147,454</u>

#### D. Unearned 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 until the year 2021. The remaining balance to be repaid at September 30, 2014, is \$92,988.

#### E. Due to Others

At September 30, 2014, the County held \$965,000 on deposit by a third party to cover potential repair expenses in the event of road damages resulting from third party activities. At September 30, 2014, the County also held \$109,020 of the state portion of fines and fees collected for the third calendar quarter of 2014.

#### F. Capital Assets

Capital asset activity for the year ended September 30, 2014, is as follows:

	Balance 09/30/13	Additions	Deletions	Balance 9/30/2014
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	12,423,357	47,114	2,625	12,467,846
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,627,726	-	-	2,627,726
Machinery and other equipment	9,667,932	1,335,975	95,393	10,908,514
Total capital assets being depreciated	136,167,779	1,383,089	98,018	137,452,850
Less: accumulated depreciation:				
Buildings	7,508,705	291,435	2,625	7,797,515
Infrastructure	109,821,085	145,641	-	109,966,726
Improvements	1,353,481	145,506	-	1,498,987
Machinery and other equipment	7,379,148	816,324	68,617	8,126,855
Total capital assets being depreciated	126,062,419	1,398,906	71,242	127,390,083
Total depreciable assets, net	<u>10,105,360</u>	<u>( 15,817)</u>	<u>26,776</u>	<u>10,062,767</u>
Total capital assets	<u>\$ 10,649,743</u>	<u>\$ ( 15,817)</u>	<u>\$ 26,776</u>	<u>\$ 10,607,150</u>

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

Governmental activities:	
General government	\$ 65,066
Justice system	19,028
Public safety	253,958
Corrections and rehabilitation	152,652
Health and human services	11,379
Community and economic development	2,261
Infrastructure and environmental services	<u>894,562</u>
Total governmental activities depreciation expense	<u>\$ 1,398,906</u>

### **G. Interfund Balances and Transfers**

In the fund financial statements, interfund balances are the result of normal transactions between funds that will be liquidated in the subsequent fiscal year. The following is a summary of amounts due from and due to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental	General	\$ 670,481
Nonmajor governmental	Road and bridge	170,195
Nonmajor governmental	Nonmajor governmental	<u>21,901</u>
		<u>\$ 862,577</u>

Interfund transfers for the fiscal year ended September 30, 2014, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ <u>672,941</u>	Nonmajor funds	Supplement fund sources
Total transfers	<u>\$ 672,941</u>		

### **H. Long-term Liabilities**

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2014.

	Balance September 30, 2013	Additions	Retirements	Balance September 30, 2014	Amounts Due Within One Year
Notes payable	\$ 165,131	\$ 168,533	\$ 115,582	\$ 218,082	\$ 124,329
Compensated absences	255,064	54,251	54,432	254,883	54,432
Net OPEB obligation	<u>352,415</u>	<u>207,779</u>	<u>198,686</u>	<u>361,508</u>	<u>-</u>
Total governmental activities	<u>\$ 772,610</u>	<u>\$ 430,563</u>	<u>\$ 368,700</u>	<u>\$ 834,473</u>	<u>\$ 178,761</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, 2014, was issued for the purpose of obtaining road and bridge equipment and a server for the courthouse. The notes are secured by the purchased equipment. The original principal amounts totaling \$502,347 are payable in monthly installments with interest of 4.80%-5.00%. Final maturity of the notes is September 28, 2019.

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

Year Ended September 30,	Principal	Interest	Total
2015	\$ 124,329	\$ 5,799	\$ 130,128
2016	45,250	2,792	48,042
2017	15,791	966	16,757
2018	16,165	593	16,758
2019	<u>16,547</u>	<u>210</u>	<u>16,757</u>
Total	<u>\$ 218,082</u>	<u>\$ 10,360</u>	<u>\$ 228,442</u>

## IV. 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 656 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](http://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 9.18% for the months of the accounting year in 2013, and 9.61% for the months in the accounting year 2014.

The deposit rate payable by the employee members for calendar year 2014 is the rate of 7% 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.

### **Annual Pension Cost**

For the employer's accounting year ended September 30, 2014, the annual pension cost for the TCDRS plan was \$800,842 and the actual contributions were \$800,842.

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, 2012	\$ 696,529	100%	\$ -
September 30, 2013	754,213	100%	-
September 30, 2014	800,842	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, 2012 and December 31, 2013, the basis for determining the contribution rates for calendar years 2013 and 2014. The December 31, 2013 actuarial valuation is the most recent valuation.

Actuarial valuation date	12/31/11	12/31/12	12/31/2013
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	20	20
Asset valuation method			
Subdivision Accumulation Fund	10-yr smoothed value	10-yr smoothed value	5-yr smoothed value
Employees Saving Fund	Fund Value	Fund Value	Fund Value
Actuarial assumptions:			
Investment return <sup>1</sup>	8.00%	8.00%	8.00%
Projected salary increases <sup>1</sup>	5.40%	5.40%	4.90%
Inflation	3.50%	3.50%	3.00%
Cost-of-living adjustments	0.00%	0.00%	0.00%

<sup>1</sup>Includes inflation at the stated rate

## Funded Status and Funding Progress

As of December 31, 2013, 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)
12/31/2013	\$ 16,300,411	\$ 20,471,151	\$ 4,170,740	79.63%	\$ 8,371,438	49.82%

The schedule of funding progress presented immediately following the basic 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 above, 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 (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.

### **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 2014 were \$198,686.

### **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 presents the components of the County's annual OPEB cost for the fiscal year ended September 30, 2014, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

Annual required contribution (ARC)	\$ 213,083
Interest on net OPEB obligation	15,859
Adjustment to annual required contribution	<u>( 21,163)</u>
Annual OPEB cost (expense)	207,779
Contributions made	<u>( 198,686)</u>
Change in OPEB obligation	9,093
Net OPEB obligation (asset), beginning	<u>352,415</u>
Net OPEB obligation (asset) ending	<u>\$ 361,508</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, 2014, and the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 264,683	\$ 196,567	74.3%	\$ 321,536
2013	199,279	168,400	84.5%	352,415
2014	207,779	198,686	95.6%	361,508

### **Funded Status and Funding Progress**

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2012	\$ -	\$ 2,138,682	\$ 2,138,682	0%	\$ 7,959,786	26.87%

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, 2012, actuarial valuation using the following methods and assumptions:

**Actuarial Methods and Assumptions**

Actuarial valuation date	12/31/2012
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar amount
Amortization period	Open 30-year period
Inflation rate	3.0% per year
Investment rate of return	4.5%, net of expenses
Health care trend	7.5% in 2014 decreasing by .5% over the next 6 years to an ultimate rate of 4.5%

**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. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

**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.

**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, 2014**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 8,963,330	\$ 8,963,330	\$ 8,946,180	\$( 17,150)
Sales	1,756,170	1,756,170	1,727,508	( 28,662)
Mixed beverage	21,000	21,000	25,671	4,671
Fees of office	858,825	858,825	948,736	89,911
Intergovernmental	237,081	237,081	300,985	63,904
Fines and forfeitures	776,800	776,800	790,040	13,240
Interest	15,896	15,896	26,147	10,251
Miscellaneous	9,500	9,500	22,276	12,776
Proceeds from issuance of debt	-	-	79,000	79,000
Proceeds from insurance	-	53,049	58,720	5,671
Transfers	1,848,844	1,848,844	1,848,844	-
Total revenues, as classified by budget	<u>14,487,446</u>	<u>14,540,495</u>	14,774,107	<u>233,612</u>
Less: other financing sources budgeted as revenues			( 1,986,564)	
Total revenues, as classified per GAAP			<u>12,787,543</u>	
<b>EXPENDITURES</b>				
County auditor	243,902	243,902	240,273	3,629
Information technology	141,090	141,090	125,828	15,262
Veterans service office	81,800	81,800	69,423	12,377
Human resources	66,934	66,934	56,560	10,374
Maintenance	354,996	354,996	361,007	( 6,011)
Agricultural agent	170,976	170,976	156,482	14,494
Tax assessor-collector	507,668	507,668	496,937	10,731
District clerk	263,920	263,920	229,686	34,234
Child support	73,014	73,014	72,788	226
County clerk	373,959	373,959	354,296	19,663
Elections	242,352	242,352	204,908	37,444
County treasurer	161,012	161,012	161,472	( 460)
Sheriff	2,623,081	2,665,145	2,684,930	( 19,785)
Jail	2,142,322	2,153,307	2,042,786	110,521
Sheriff dept / animal control	55,310	55,310	53,359	1,951
County judge	182,108	182,108	179,393	2,715
County attorney	356,572	356,572	342,108	14,464
District attorney	403,592	403,592	376,000	27,592
Justice of the peace - Pct. #1	102,908	102,908	101,825	1,083
Justice of the peace - Pct. #2	98,954	98,954	98,968	( 14)
Justice of the peace - Pct. #3	106,978	106,978	103,291	3,687
Justice of the peace - Pct. #4	96,108	96,108	94,871	1,237
Constable - Pct. #1	70,340	70,340	70,145	195
Constable - Pct. #2	74,834	74,834	66,924	7,910
Constable - Pct. #3	71,780	71,780	71,544	236
Constable - Pct. #4	71,114	71,114	69,434	1,680

# 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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>EXPENDITURES (Continued)</b>				
2nd judicial district court	\$ 531,052	\$ 531,052	\$ 391,535	\$ 139,517
Court administrator - 2nd / 369th district court	124,256	124,256	115,271	8,985
369th judicial district court	169,546	169,546	131,360	38,186
County court-at-law	569,900	569,900	531,616	38,284
Transfers to other funds	516,782	516,782	516,782	-
Other departmental	1,178,004	1,178,004	1,246,550	( 68,546)
County special	377,504	377,504	378,322	( 818)
County/state special	29,200	29,200	65,380	( 36,180)
Juvenile probation	316,971	316,971	304,768	12,203
Emergency management	60,972	60,972	57,389	3,583
Rural addressing	23,563	23,563	22,906	657
DARE program	58,038	58,038	55,782	2,256
Records management	31,000	31,000	41,212	( 10,212)
Mental health advocate	92,270	92,270	80,091	12,179
Department of public safety	<u>15,225</u>	<u>15,225</u>	<u>6,348</u>	<u>8,877</u>
Total expenditures - sub-fund 010	<u>13,231,907</u>	<u>13,284,956</u>	<u>12,830,550</u>	<u>454,406</u>
Solid waste - sub-fund 021	108,804	108,804	118,255	( 9,451)
General fund special - sub-fund 025	1,761,970	1,761,970	1,761,970	-
Indigent health - sub-fund 045	693,366	693,366	183,278	510,088
Historical commission - sub-fund 050	<u>15,000</u>	<u>15,000</u>	<u>14,560</u>	<u>440</u>
Total expenditures, as classified by budget	<u>15,811,047</u>	<u>15,864,096</u>	14,908,613	<u>955,483</u>
Less: other financing uses budgeted as expenditures			( 2,521,785)	
Total expenditures, as classified per GAAP			<u>12,386,828</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>			<u>400,715</u>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out			( 672,941)	
Proceeds from issuance of debt			79,000	
Proceeds from insurance			<u>58,720</u>	
Total other financing sources (uses)			<u>( 535,221)</u>	
<b>NET CHANGE IN FUND BALANCES</b>	( 1,323,601)	( 1,323,601)	( 134,506)	1,189,095
<b>FUND BALANCES, BEGINNING</b>	<u>3,025,049</u>	<u>3,025,049</u>	<u>3,025,049</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 1,701,448</u>	<u>\$ 1,701,448</u>	<u>\$ 2,890,543</u>	<u>\$ 1,189,095</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, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 3,730,600	\$ 3,730,600	\$ 3,654,263	\$( 76,337)
Fees of office	788,000	788,000	906,198	118,198
Intergovernmental	47,000	47,000	50,227	3,227
Interest	6,560	6,560	8,381	1,821
Total revenues	4,572,160	4,572,160	4,619,069	46,909
<b>EXPENDITURES</b>				
General government	517,290	517,290	524,133	( 6,843)
Infrastructure and environmental services	4,227,870	4,227,870	3,456,712	771,158
Capital outlay	266,140	411,140	580,729	( 169,589)
Debt service:				
Principal	82,331	82,331	115,582	( 33,251)
Interest	6,529	6,529	4,562	1,967
Total expenditures	5,100,160	5,245,160	4,681,718	563,442
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	( 528,000)	( 673,000)	( 62,649)	610,351
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the issuance of debt	-	-	89,533	89,533
Proceeds from insurance	-	-	18,932	18,932
Total other financing sources (uses)	-	-	108,465	108,465
<b>NET CHANGE IN FUND BALANCES</b>	( 528,000)	( 673,000)	45,816	718,816
<b>FUND BALANCES, BEGINNING</b>	1,905,910	1,905,910	1,905,910	-
<b>FUND BALANCES, ENDING</b>	\$ 1,377,910	\$ 1,232,910	\$ 1,951,726	\$ 718,816

**REQUIRED SUPPLEMENTARY INFORMATION**

**CHEROKEE COUNTY, TEXAS**

**TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2011	\$ 15,194,426	\$ 18,809,583	\$ 3,615,157	80.78%	\$ 7,947,225	45.49%
12/31/2012	15,351,036	19,310,125	3,959,089	79.50%	7,959,786	49.74%
12/31/2013	16,300,411	20,471,151	4,170,740	79.63%	8,371,438	49.82%

**CHEROKEE COUNTY, TEXAS**

**RETIREE HEALTH PROGRAM**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2008	\$ -	\$ 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%
12/31/2012	-	2,138,682	2,138,682	- %	7,959,786	26.87%

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**COMBINING  
FUND STATEMENTS**

**CHEROKEE COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2014**

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 17,200	\$ -
Investments	8,815	94,703	-	-	322,407
Due from other funds	-	112,537	628,899	-	57,932
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	-
Due from other governments	171,130	-	-	-	-
Total assets	<u>\$ 179,945</u>	<u>\$ 207,240</u>	<u>\$ 628,899</u>	<u>\$ 17,200</u>	<u>\$ 380,339</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 66,315	\$ 23,771	\$ 10,348	\$ -	\$ 33,470
Accrued liabilities	39,363	2,207	-	-	-
Due to other funds	21,901	-	-	-	-
Due to others	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total liabilities	<u>127,579</u>	<u>25,978</u>	<u>10,348</u>	<u>-</u>	<u>33,470</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable - property taxes	-	-	-	-	-
Unavailable - grants	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted for:					
General government	-	-	544,010	-	-
Justice system	-	-	70,556	-	346,869
Public safety	-	-	3,985	17,200	-
Corrections and rehabilitation	-	-	-	-	-
Debt service	-	-	-	-	-
Assigned for:					
Health and human services	52,366	-	-	-	-
Infrastructure and environmental services	-	181,262	-	-	-
Capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>52,366</u>	<u>181,262</u>	<u>618,551</u>	<u>17,200</u>	<u>346,869</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 179,945</u>	<u>\$ 207,240</u>	<u>\$ 628,899</u>	<u>\$ 17,200</u>	<u>\$ 380,339</u>

Special Revenue							
Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 30,658	\$ -	\$ 4,541	\$ 21,250	\$ 100	\$ 243	\$ 137	\$ 74,129
-	-	-	-	-	53,497	74,156	553,578
-	43,056	20,153	-	-	-	-	862,577
-	-	-	-	-	21,061	-	21,061
-	-	-	-	10,161	-	-	181,291
<u>\$ 30,658</u>	<u>\$ 43,056</u>	<u>\$ 24,694</u>	<u>\$ 21,250</u>	<u>\$ 10,261</u>	<u>\$ 74,801</u>	<u>\$ 74,293</u>	<u>\$ 1,692,636</u>
\$ -	\$ -	\$ 54	\$ -	\$ -	\$ -	\$ -	\$ 133,958
-	-	-	-	-	-	-	41,570
-	-	-	-	-	-	-	21,901
-	-	-	-	10,161	-	-	10,161
-	-	-	-	-	-	-	-
-	-	54	-	10,161	-	-	207,590
-	-	-	-	-	18,764	-	18,764
-	-	-	-	6,091	-	-	6,091
-	-	-	-	6,091	18,764	-	24,855
-	-	-	-	-	-	-	544,010
-	43,056	-	-	-	-	-	460,481
-	-	24,640	21,250	-	-	-	67,075
30,658	-	-	-	-	-	-	30,658
-	-	-	-	-	56,037	-	56,037
-	-	-	-	-	-	-	52,366
-	-	-	-	-	-	-	181,262
-	-	-	-	-	-	74,293	74,293
-	-	-	-	( 5,991)	-	-	( 5,991)
<u>30,658</u>	<u>43,056</u>	<u>24,640</u>	<u>21,250</u>	<u>( 5,991)</u>	<u>56,037</u>	<u>74,293</u>	<u>1,460,191</u>
<u>\$ 30,658</u>	<u>\$ 43,056</u>	<u>\$ 24,694</u>	<u>\$ 21,250</u>	<u>\$ 10,261</u>	<u>\$ 74,801</u>	<u>\$ 74,293</u>	<u>\$ 1,692,636</u>

**CHEROKEE COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
	<u>Unit</u>	<u>Airport</u>	<u>Grant</u>	<u>Education</u>	<u>Probation</u>
<b>REVENUES</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Fees of office	182,269	469,908	244,272	-	-
Intergovernmental	868,361	9,244	383	5,960	519,096
Fines and forfeitures	-	-	58,985	-	8,589
Interest	215	187	-	34	714
Miscellaneous	-	-	-	-	34
Total revenues	<u>1,050,845</u>	<u>479,339</u>	<u>303,640</u>	<u>5,994</u>	<u>528,433</u>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	64,753	-	-
Justice system	-	-	70,129	-	842,507
Public safety	-	-	1,788	5,588	-
Corrections and rehabilitation	-	-	-	-	-
Health and human services	1,484,307	-	-	-	-
Infrastructure and environmental services	-	498,809	-	-	-
Capital Outlay	34,909	20,428	-	-	-
Total expenditures	<u>1,519,216</u>	<u>519,237</u>	<u>136,670</u>	<u>5,588</u>	<u>842,507</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 468,371)</u>	<u>( 39,898)</u>	<u>166,970</u>	<u>406</u>	<u>( 314,074)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	290,000	139,908	-	-	243,033
Total other financing sources and uses	<u>290,000</u>	<u>139,908</u>	<u>-</u>	<u>-</u>	<u>243,033</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>( 178,371)</u>	<u>100,010</u>	<u>166,970</u>	<u>406</u>	<u>( 71,041)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>230,737</u>	<u>81,252</u>	<u>451,581</u>	<u>16,794</u>	<u>417,910</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 52,366</u>	<u>\$ 181,262</u>	<u>\$ 618,551</u>	<u>\$ 17,200</u>	<u>\$ 346,869</u>

Special Revenue

Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,726	\$ -	\$ 1,726
90,069	-	-	-	-	-	-	986,518
-	-	-	-	10,161	-	-	1,413,205
-	6,548	21,877	43	-	-	-	96,042
-	-	-	-	-	300	371	1,821
-	-	-	-	-	-	-	34
<u>90,069</u>	<u>6,548</u>	<u>21,877</u>	<u>43</u>	<u>10,161</u>	<u>2,026</u>	<u>371</u>	<u>2,499,346</u>
-	-	-	-	-	-	-	64,753
-	6,337	-	-	-	-	-	918,973
-	-	17,085	661	10,161	-	-	35,283
86,856	-	-	-	-	-	-	86,856
-	-	-	-	-	-	-	1,484,307
-	-	-	-	-	-	-	498,809
-	-	-	-	-	-	187,581	242,918
<u>86,856</u>	<u>6,337</u>	<u>17,085</u>	<u>661</u>	<u>10,161</u>	<u>-</u>	<u>187,581</u>	<u>3,331,899</u>
<u>3,213</u>	<u>211</u>	<u>4,792</u>	<u>( 618)</u>	<u>-</u>	<u>2,026</u>	<u>( 187,210)</u>	<u>( 832,553)</u>
-	-	-	-	-	-	-	672,941
-	-	-	-	-	-	-	672,941
3,213	211	4,792	( 618)	-	2,026	( 187,210)	( 159,612)
<u>27,445</u>	<u>42,845</u>	<u>19,848</u>	<u>21,868</u>	<u>( 5,991)</u>	<u>54,011</u>	<u>261,503</u>	<u>1,619,803</u>
<u>\$ 30,658</u>	<u>\$ 43,056</u>	<u>\$ 24,640</u>	<u>\$ 21,250</u>	<u>\$ ( 5,991)</u>	<u>\$ 56,037</u>	<u>\$ 74,293</u>	<u>\$ 1,460,191</u>

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# **SINGLE AUDIT SECTION**

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PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County, Texas as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 22, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cherokee County, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Pattillo, Brown & Hill, L.L.P.*

Waco, Texas  
June 22, 2015



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

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

**Report on Compliance for Each Major State Program**

We have audited Cherokee County, Texas' ("the County") compliance with the types of compliance requirements described in the *Uniform Grant Management Standards* ("UGMS") that could have direct and material effect on each of the County's major state programs for the year ended September 30, 2014. The County's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major state programs based on our audit of the types of compliance requirements referred to above. 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 *UGMS*. Those standards and *UGMS* 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 state 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 on compliance for each major State program. However, our audit does not provide a legal determination of the County's compliance.

### ***Basis for Qualified Opinion on CHS/Primary Health Care and Extended Primary Health Care***

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding CHS/Primary Health Care and Extended Primary Health Care as described in finding number 2014-001 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

### ***Qualified Opinion on CHS/Primary Health Care and Extended Primary Health Care***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CHS/Primary Health Care and Extended Primary Health Care for the year ended September 30, 2014.

### ***Other Matters***

The County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the County, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *UGMS*, 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 the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weaknesses.

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 state 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 state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *UGMS*. Accordingly, this report is not suitable for any other purpose.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas  
June 22, 2015

**CHEROKEE COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**SEPTEMBER 30, 2014**

State Grantor/Pass-through Grantor/ Program Title	Pass-through Grantor Number	Expenditures
<b><u>TEXAS TASK FORCE ON INDIGENT DEFENSE</u></b>		
Passed through the Office of Court Administration		
Indigent Defense Services		\$ <u>60,339</u>
Total Passed through the Office of Court Administrator		<u>60,339</u>
Total Texas Task Force on Indigent Defense		<u>60,339</u>
<b><u>COMMISSION ON STATE EMERGENCY COMMUNICATIONS</u></b>		
Passed through East Texas Council of Governments:		
Mapping & 911 Data Base Services		<u>23,088</u>
Total Passed through East Texas Council of Governments		<u>23,088</u>
Total Commission on State Emergency Communications		<u>23,088</u>
<b><u>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</u></b>		
Tuberculosis/Primary Care	2014-001376	14,945
CHS/Primary Health Care	2014-044482-001	97,654
CHS/Primary Health Care	2015-046177-001	5,595
Extended Primary Health Care	2014-045448-001	204,463
Extended Primary Health Care	2015-046734-001	27,079
Immunization Branch - Locals	2014-001056	39,434
Breast and Cervical Cancer Services	2014-044923-001	9,478
RLSS/Local Public Health System	2013-041423-004	83,960
RLSS/Local Public Health System	2014-001272-00	<u>6,472</u>
Total Texas Department of State Health Services		<u>489,080</u>
<b>TOTAL STATE EXPENDITURES</b>		<b>\$ <u>572,507</u></b>

# **CHEROKEE COUNTY, TEXAS**

## **NOTE TO SCHEDULE OF EXPENDITURES OF STATE AWARDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

### **1. GENERAL**

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

### **2. BASIS OF ACCOUNTING**

The Schedule of Expenditures of State 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 *State of Texas Uniform Grant Management Standards*. 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, 2014**

**Summary of Auditors' Results**

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

State Awards:

Internal control over major programs:	
Material weakness(es) identified?	2014-001
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs	Qualified

Any audit findings disclosed that are required to be reported in accordance with State of Texas Uniform Grant Management Standards	2014-001
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Identification of major programs:

Name of State Program or Cluster:	
CHS/Primary Health Care	
Extended Primary Health Care	

Dollar threshold used to distinguish between type A and type B state programs	\$300,000
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Auditee qualified as low-risk auditee under State of Texas Uniform Grant Management Standards?	No
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**Findings Relating to the Financial Statements Which  
Are Required to be Reported in Accordance With  
Government Auditing Standards**

None

**CHEROKEE COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

**Findings and Questioned Costs for State Awards**

Finding 2014-001

State Grantor:	Texas Department of State Health Services
Program:	CHS/Primary Health Care and Extended Primary Health Care
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Cost:	\$226,966
Criteria:	Entities must report payroll expenditures based on actual time worked when employees do not work 100% of their time on one program.
Condition:	The County requested reimbursement for payroll expenditures based on budget instead of actual time worked on the program.
Effect:	Payroll records were not available to determine the actual time worked on each program.
Recommendation:	The County should implement policies and procedures that will allow all employees who are being paid with grant money to track exactly how much time they spend on each program.
Management's Response:	Cherokee County Public Health Department has implemented a new timekeeping system by which Clinic employees, directly working in each grant, are accounting for their time in 15 minute increments. This system will better account for the type of patient being seen and more accurately ensuring that all cost and revenues are allocated to the appropriate grant. This timekeeping system went into effect on May 18, 2015. Journal entries will still be prepared by the Financial Manager and provided to the County Auditor's office on a monthly basis. These journal entries will clear out the payroll clearing account utilized by the County's payroll department when preparing payroll.

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