

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2015

CHEROKEE COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015
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CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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INTRODUCTORY SECTION

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CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2015

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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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, (the "County"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, 2015, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note I to the financial statements, in 2015 the County adopted new accounting guidance, Governmental Accounting Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Accounting Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. 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, the budgetary comparison information, pension information, and the OPEB schedule of funding progress on pages 5–10, and 38–44 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 County's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis as required by the *State of Texas Uniform Grant Management Standards*, issued by the Governor's Office of Budget and Planning, and is also not a required part of the basic financial statements.

The combining fund financial statements, and the schedule of expenditures of state awards 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 fund financial statements and schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, on our consideration of the County's 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 the County's internal control over financial reporting and compliance.

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

Waco, Texas
June 27, 2016

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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, 2015. This analysis should be read in conjunction with the financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Cherokee County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$14,958,149 (net position). Of this amount, \$4,321,303 (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 \$1,503,807.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,242,354, a decrease of \$1,051,334 in comparison with the prior year. Approximately 79% of this total amount, \$4,128,434, 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 \$2,223,871 or 18% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) increased by \$1,990,577 (239%) 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, deferred outflows of resources, liabilities and deferred inflows of resources. 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 and deferred outflows exceeded liabilities and deferred inflows by \$14,958,149 as of September 30, 2015.

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	
	2015	2014
Current and other assets	\$ 12,554,497	\$ 10,117,313
Capital assets	<u>9,902,321</u>	<u>10,607,150</u>
Total assets	<u>22,456,818</u>	<u>20,724,463</u>
Deferred outflows - pensions	<u>964,115</u>	<u>-</u>
Total deferred outflows of resources	<u>964,115</u>	<u>-</u>
Long-term liabilities	2,825,050	834,473
Other liabilities	<u>5,568,703</u>	<u>2,119,942</u>
Total liabilities	<u>8,393,753</u>	<u>2,954,415</u>
Deferred inflows - pensions	<u>69,031</u>	<u>-</u>
Total deferred inflows of resources	<u>69,031</u>	<u>-</u>
Net position:		
Net investment in capital assets	9,522,926	10,389,068
Restricted	1,113,920	1,158,261
Unrestricted	<u>4,321,303</u>	<u>6,222,719</u>
Total net position	<u>\$ 14,958,149</u>	<u>\$ 17,770,048</u>

Governmental Activities. Governmental activities decreased Cherokee County's net position by \$1,503,807. A key element of this decrease in net position was a \$3,932,269 or 19% increase in fiscal year 2015 expenses as compared to fiscal year 2014 revenues. The largest factor that resulted in this decrease is an increase in spending on roads and bridges repairs and maintenance. Infrastructure and environmental expenses increased by \$1,203,372.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2015	2014
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 7,064,202	\$ 3,727,043
Operating grants and contributions	2,075,911	1,788,433
General revenues:		
Property taxes	12,853,644	12,710,507
Sales and other taxes	1,759,674	1,753,179
Gain on disposal of capital assets	111,816	-
Investment income	51,604	36,349
Miscellaneous	53,239	22,310
Total revenues	23,970,090	20,037,821
EXPENSES		
General government	5,030,050	4,592,525
Justice system	3,401,841	3,312,138
Public safety	3,089,816	3,021,768
Corrections and rehabilitation	2,282,882	2,282,294
Health and human services	5,318,868	1,828,478
Community and economic development	140,028	229,085
Infrastructure and environmental	6,200,010	4,996,638
Interest and fiscal charges	10,402	4,562
Total expenses	25,473,897	20,267,488
DECREASE IN NET POSITION	(1,503,807)	(229,667)
NET POSITION, BEGINNING, RESTATED	16,461,956	17,999,715
NET POSITION, ENDING	\$ 14,958,149	\$ 17,770,048

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As the County completed the year, its governmental funds, as presented in the balance sheet in this report, reported a *combined* fund balance of \$5,242,354 which is a decrease of \$1,051,334 from last year's total of \$6,293,688.

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 \$2,223,871. 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 18% of the total General Fund expenditures. Additionally, revenues increased primarily a result the County participating in a program to charge private hospitals for assistance in funding for indigent health care. Revenues and expenses increased by \$3.5 million as a result of this program.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$345,875. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,342,137 less than final budgeted appropriations.

CAPITAL ASSETS

Cherokee County's investment in capital assets for its governmental activities as of September 30, 2015, amounts to \$130,372 (net of accumulated depreciation), a decrease of \$10,421 from the prior year. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

CHEROKEE COUNTY CAPITAL ASSETS

	Capital Assets	
	2015	2014
Land	\$ 544,383	\$ 544,383
Buildings	12,516,033	12,467,846
Infrastructure	111,448,764	111,448,764
Improvements	2,627,726	2,627,726
Machinery and other equipment	11,044,789	10,908,514
Less: accumulated depreciation	<u>(128,279,374)</u>	<u>(127,390,083)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 9,902,321</u>	<u>\$ 10,607,150</u>

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

LONG-TERM DEBT

At September 30, 2015, the County had outstanding notes payable of \$379,395 which \$291,685 was issued in the current year. Principal payments of \$130,372 were made on notes payable in the current year, and interest expense on notes payable for the year was \$10,421. 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>2015</u>	<u>2014</u>
Notes payable	\$ 379,395	\$ 218,082
Compensated absences	247,243	254,883
Net pension liability	1,775,901	-
Other post employment benefits	<u>422,511</u>	<u>361,508</u>
Total outstanding debt	<u>\$ 2,825,050</u>	<u>\$ 834,473</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2016, 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 \$834,223 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, 2015

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 3,882,815
Investments	6,269,334
Receivables, net of allowance	2,194,082
Due from other governments	208,266
Capital assets, net:	
Land	544,383
Buildings and improvements	12,516,033
Infrastructure	111,448,764
Improvements other than buildings	2,627,726
Equipment	11,044,789
Less: accumulated depreciation	(128,279,374)
Total capital assets	<u>9,902,321</u>
Total assets	<u>22,456,818</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	<u>964,115</u>
Total deferred outflows of resources	<u>964,115</u>
LIABILITIES	
Accounts payable	4,061,976
Accrued liabilities	310,003
Due to others	1,117,020
Unearned revenue	79,704
Noncurrent liabilities:	
Due within one year	109,424
Due in more than one year	<u>2,715,626</u>
Total liabilities	<u>8,393,753</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	<u>69,031</u>
Total deferred inflows of resources	<u>69,031</u>
NET POSITION	
Net investment in capital assets	9,522,926
Restricted	1,113,920
Unrestricted	<u>4,321,303</u>
Total net position	<u>\$ 14,958,149</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, 2015

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	\$ 5,030,050	\$ 1,171,287	\$ 16,301	\$(3,842,462)
Justice system	3,401,841	868,856	712,655	(1,820,330)
Public safety	3,089,816	294,699	80,298	(2,714,819)
Corrections and rehabilitation	2,282,882	168,462	-	(2,114,420)
Health and human services	5,318,868	3,708,224	983,743	(626,901)
Community and economic development	140,028	-	-	(140,028)
Infrastructure and environmental services	6,200,010	852,674	282,914	(5,064,422)
Interest and fiscal charges	10,402	-	-	(10,402)
Total governmental activities	<u>25,473,897</u>	<u>7,064,202</u>	<u>2,075,911</u>	<u>(16,333,784)</u>
Total primary government	<u>\$ 25,473,897</u>	<u>\$ 7,064,202</u>	<u>\$ 2,075,911</u>	<u>(16,333,784)</u>
General revenues				
Taxes:				
				9,120,608
				3,732,545
				491
				1,736,032
				23,642
				111,816
				51,604
				53,239
				<u>14,829,977</u>
				(1,503,807)
				<u>16,461,956</u>
				<u>\$ 14,958,149</u>

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

CHEROKEE COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2015

	General	Road and Bridge	Local Provider Participation	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ -	\$ 872,502	\$ 2,028,568	\$ 981,745	\$ 3,882,815
Investments	3,936,647	1,888,397	-	444,290	6,269,334
Due from other funds	-	-	1,517,693	-	1,517,693
Receivables (net of allowance for uncollectibles)					
Taxes	1,397,550	426,786	-	19,372	1,843,708
Accounts	297,262	53,112	-	-	350,374
Due from other governments	21,931	-	-	186,335	208,266
Total assets	<u>5,653,390</u>	<u>3,240,797</u>	<u>3,546,261</u>	<u>1,631,742</u>	<u>14,072,190</u>
LIABILITIES					
Accounts payable	220,504	241,795	3,526,084	73,593	4,061,976
Accrued liabilities	230,109	51,406	-	28,488	310,003
Due to other funds	1,474,882	-	-	42,811	1,517,693
Due to others	102,020	1,015,000	-	-	1,117,020
Unearned revenues	79,704	-	-	-	79,704
Total liabilities	<u>2,107,219</u>	<u>1,308,201</u>	<u>3,526,084</u>	<u>144,892</u>	<u>7,086,396</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable - property taxes	1,020,105	396,621	-	18,428	1,435,154
Unavailable - court fines and fees	297,162	-	-	-	297,162
Unavailable - grants	5,033	-	-	6,091	11,124
Total deferred inflows of resources	<u>1,322,300</u>	<u>396,621</u>	<u>-</u>	<u>24,519</u>	<u>1,743,440</u>
FUND BALANCES					
Restricted for:					
General government	-	-	-	544,010	544,010
Justice system	-	-	-	282,043	282,043
Public safety	-	-	-	201,204	201,204
Corrections and rehabilitation	-	-	-	30,106	30,106
Debt service	-	-	-	56,557	56,557
Assigned for:					
Health and human services	-	-	20,177	133,378	153,555
Infrastructure and environmental services	-	1,535,975	-	171,949	1,707,924
Capital projects	-	-	-	49,075	49,075
Unassigned	2,223,871	-	-	(5,991)	2,217,880
Total fund balances	<u>2,223,871</u>	<u>1,535,975</u>	<u>20,177</u>	<u>1,462,331</u>	<u>5,242,354</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 5,653,390</u>	<u>\$ 3,240,797</u>	<u>\$ 3,546,261</u>	<u>\$ 1,631,742</u>	<u>\$ 14,072,190</u>

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

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2015

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

Total fund balance - governmental funds	\$	5,242,354
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,902,321
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.		1,743,440
The net pension liability and net other post employment benefits obligation reported in the governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(941,820)
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>988,146</u>)
Net position of governmental activities	\$	<u>14,958,149</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, 2015

	General	Road and Bridge	Local Provider Participation	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property	\$ 9,095,511	\$ 3,722,448	\$ -	\$ -	\$ 12,817,959
Sales	1,736,032	-	-	-	1,736,032
Mixed beverage	23,642	-	-	-	23,642
Fees of office	923,942	1,014,986	3,546,271	960,702	6,445,901
Intergovernmental	263,992	277,820	-	1,485,342	2,027,154
Fines and forfeitures	597,956	-	-	65,687	663,643
Interest	41,741	8,055	-	1,808	51,604
Miscellaneous	52,031	517	-	34	52,582
Total revenues	<u>12,734,847</u>	<u>5,023,826</u>	<u>3,546,271</u>	<u>2,513,573</u>	<u>23,818,517</u>
EXPENDITURES					
Current:					
General government	4,403,529	503,112	-	74,994	4,981,635
Justice system	2,489,980	-	-	958,507	3,448,487
Public safety	2,891,023	-	-	62,354	2,953,377
Corrections and rehabilitation	2,120,042	-	-	111,593	2,231,635
Health and human services	250,080	-	3,526,094	1,577,860	5,354,034
Community and economic development	180,563	-	-	-	180,563
Infrastructure and environmental services	152,681	4,679,052	-	448,739	5,280,472
Capital outlay	147,155	577,402	-	52,806	777,363
Debt service:					
Principal	15,070	115,302	-	-	130,372
Interest	1,688	8,714	-	-	10,402
Total expenditures	<u>12,651,811</u>	<u>5,883,582</u>	<u>3,526,094</u>	<u>3,286,853</u>	<u>25,348,340</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>83,036</u>	<u>(859,756)</u>	<u>20,177</u>	<u>(773,280)</u>	<u>(1,529,823)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	775,420	775,420
Transfers out	(775,420)	-	-	-	(775,420)
Proceeds from issuance of debt	-	291,685	-	-	291,685
Proceeds from sale of assets	8,010	148,653	-	-	156,663
Proceeds from insurance	26,474	3,667	-	-	30,141
Total other financing sources (uses)	<u>(740,936)</u>	<u>444,005</u>	<u>-</u>	<u>775,420</u>	<u>478,489</u>
NET CHANGE IN FUND BALANCES	<u>(657,900)</u>	<u>(415,751)</u>	<u>20,177</u>	<u>2,140</u>	<u>(1,051,334)</u>
FUND BALANCES, BEGINNING	<u>2,881,771</u>	<u>1,951,726</u>	<u>-</u>	<u>1,460,191</u>	<u>6,293,688</u>
FUND BALANCES, ENDING	<u>\$ 2,223,871</u>	<u>\$ 1,535,975</u>	<u>\$ 20,177</u>	<u>\$ 1,462,331</u>	<u>\$ 5,242,354</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, 2015

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

Net change in fund balance - governmental funds	\$(1,051,334)
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.	(704,829)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	39,757
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	130,372
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>373,912</u>
Change in net position of governmental activities	<u><u>\$(1,503,807)</u></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, 2015

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>1,925,626</u>
Total assets	<u>1,925,626</u>
LIABILITIES	
Due to others	<u>1,925,626</u>
Total liabilities	\$ <u><u>1,925,626</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, 2015

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.

Local Provider Participation – The Local Provider Participation Fund accounts for all money received and paid out as required by Title 4, Subtitle D, Chapter 293 of the State of Texas Health and Safety Code.

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. 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. 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. The County has the following items that qualify for reporting in this category:

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

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 County has the following items that qualify for reporting in this category:

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental funds report unavailable revenues from three sources: property taxes, court fines and fees, and grants.
- Difference in expected and actual pension experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

J. 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.

K. 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.

L. 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.

M. 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.

N. 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.

O. 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, 2015, was \$.5900 per \$100 and was allocated as follows:

General fund	\$ 0.4035
General fund - indigent health	0.0115
Road and bridge fund	<u>0.1750</u>
	<u>\$ 0.5900</u>

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. For this purpose, plan contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. 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.

R. Prior Period Adjustment

The GASB has issued Statement No. 68. "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,*" which became effective for fiscal year 2015. This statement changes the focus of pension accounting for employers from whether they are responsibly funding their plan over time to a point-in-time liability that is reflected in the employer's financial statements for any actuarially unfunded portion of pension benefits earned to date.

The implementation of Statement No. 68 resulted restatement of beginning net position for the recording of the beginning net pension liability and the beginning deferred outflow for contributions made after the measurement date. Prospectively applying these changes results in the adjustments below.

	<u>Governmental Activities</u>
Net position at September 30, 2014, as previously reported	\$ 17,770,048
Recording of net pension liability as of September 30, 2015	(1,912,195)
Deferral for pension contributions made after the measurement date	<u>604,103</u>
Net position at September 30, 2014, as restated	<u>\$ 16,461,956</u>

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

At September 30, 2015, 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). As of September 30, 2015 the repayments were complete.

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, 2015, 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, 2015, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>	<u>S&P Rating</u>
TexStar	\$ 30,653	46	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 statues 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	\$ 1,135,402	\$ 442,540	\$ 20,087	\$ 1,598,029
Sales tax	297,462	-	-	297,462
Mixed beverage tax	5,106	-	-	5,106
Court fines receivable	4,768,597	-	-	4,768,597
Other	100	53,112	-	53,212
Less: allowance for uncollectibles	(4,511,855)	(15,754)	(715)	(4,528,324)
Net accounts receivable	\$ <u>1,694,812</u>	\$ <u>479,898</u>	\$ <u>19,372</u>	\$ <u>2,194,082</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, 2015, is \$79,704.

E. Due to Others

At September 30, 2015, the County held \$1,015,000 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, 2015, the County also held \$102,020 of the state portion of fines and fees collected for the third calendar quarter of 2015.

F. Capital Assets

Capital asset activity for the year ended September 30, 2015, is as follows:

	Balance 9/30/2014	Additions	Deletions/ Adjustments	Balance 9/30/2015
Governmental activities				
Capital assets not depreciated:				
Land	\$ 544,383	\$ -	\$ -	\$ 544,383
Total capital assets not being depreciated	544,383	-	-	544,383
Capital assets being depreciated:				
Buildings	12,467,846	48,187	-	12,516,033
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,627,726	-	-	2,627,726
Machinery and other equipment	10,908,514	745,525	609,250	11,044,789
Total capital assets being depreciated	137,452,850	793,712	609,250	137,637,312
Less: accumulated depreciation:				
Buildings	7,797,515	294,633	(721)	8,092,869
Infrastructure	109,966,726	145,641	-	110,112,367
Improvements	1,498,987	145,505	(123)	1,644,615
Machinery and other equipment	8,126,856	867,915	565,248	8,429,523
Total capital assets being depreciated	127,390,084	1,453,694	564,404	128,279,374
Total depreciable assets, net	10,062,766	(659,982)	44,846	9,357,938
Total capital assets	\$ 10,607,149	\$(659,982)	\$ 44,846	\$ 9,902,321

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

Governmental activities:	
General government	\$ 82,489
Justice system	18,711
Public safety	257,392
Corrections and rehabilitation	154,612
Health and human services	16,778
Community and economic development	2,261
Infrastructure and environmental services	<u>921,451</u>
Total governmental activities depreciation expense	<u>\$ 1,453,694</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>
Local provider participation fund	General	\$ 1,474,882
Nonmajor governmental	Nonmajor governmental	<u>42,811</u>
		<u>\$ 1,517,693</u>

Interfund transfers for the fiscal year ended September 30, 2015, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ <u>775,420</u>	Nonmajor funds	Supplement fund sources
Total transfers	<u>\$ 775,420</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, 2015.

	<u>Balance September 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2015</u>	<u>Amounts Due Within One Year</u>
Notes payable	\$ 218,082	\$ 291,685	\$ 130,372	\$ 379,395	\$ 58,920
Compensated absences	254,883	244,878	252,518	247,243	50,504
Net pension liability	-	5,545,533	3,769,632	1,775,901	-
Net OPEB obligation	<u>361,508</u>	<u>278,888</u>	<u>217,885</u>	<u>422,511</u>	<u>-</u>
Total governmental activities	<u>\$ 834,473</u>	<u>\$ 6,360,984</u>	<u>\$ 4,370,407</u>	<u>\$ 2,825,050</u>	<u>\$ 109,424</u>

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

Notes Payable

The notes payable outstanding at September 30, 2015, were 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 \$459,868 are payable in monthly installments with interest of 3.20%-5.00%. Final maturity of the notes is September 8, 2019.

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 58,920	\$ 11,713	\$ 70,633
2017	29,905	9,443	39,348
2018	273,393	4,660	278,053
2019	<u>17,177</u>	<u>210</u>	<u>17,387</u>
Total	<u>\$ 379,395</u>	<u>\$ 26,026</u>	<u>\$ 405,421</u>

IV. OTHER INFORMATION

A. Pension Plan

Plan Description

The County participates in 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 nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

All eligible employees of the County are required to participate in TCDRS.

Benefits Provided

TCDRS provides retirement, disability and death benefits for all of its fulltime employees. Benefit provisions are adopted by the governing body of the County, within the options available in the state statutes governing TCDRS.

Members can retire at age 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 eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	139
Inactive employees entitled to but not yet receiving benefits	255
Active employees	<u>419</u>
	<u><u>813</u></u>

Contributions. The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings, as adopted by the employer’s governing body. Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer’s plan. Under the state law governing TCDRS, the contribution rate for each entity is determined annually by the actuary and approved by the TCDRS Board of Trustees. The replacement life entry age actuarial cost method is used in determining the contribution rate. The actuarially determined rate is the estimated amount necessary to fund benefits in an orderly manner for each participant over his or her career so that sufficient funds are accumulated by the time benefit payments begin, with an additional amount to finance any unfunded accrued liability.

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 9.18% and 9.61% in calendar years 2014 and 2015, respectively. The County’s contributions to TCDRS for the year ended September 30, 2015, were \$1,009,463, and were \$100,000 greater than the required contributions.

Net Pension Liability. The County’s Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	2.5% per year
Investment rate of return	8.1%, net of pension plan investment expense, including inflation

Mortality rates for active members, retirees, and beneficiaries were based on the following:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.

The actuarial assumptions that determined the total pension liability as of December 31, 2014, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except where required to be different by GASB 68.

The long-term expected rate of return on pension plan investments is 8.10%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2015 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	16.50%	5.35%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	12.00%	8.35%
Global Equities	MSCI World (net) Index	1.50%	5.65%
International Equities - Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	11.00%	5.35%
International Equities - Emerging	50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index	9.00%	6.35%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.55%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.75%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.54%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.75%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.00%
Commodities	Bloomberg Commodities Index	2.00%	-0.20%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	3.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.15%

⁽¹⁾ Target asset allocation adopted at the April 2015 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.7% per Cliffwater's 2015 capital market assumptions.

⁽³⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

⁽⁴⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$ 32,258,676	\$ 30,346,480	\$ 1,912,196
Changes for the year:			
Service cost	1,030,570	-	1,030,570
Interest on total pension liability ⁽¹⁾	2,578,735	-	2,578,735
Effect of economic/demographic gains or losses	(92,042)	-	(92,042)
Refund of contributions	(128,099)	(128,099)	-
Benefit payments	(1,764,139)	(1,764,139)	-
Administrative expenses	-	(24,032)	24,032
Member contributions	-	614,434	(614,434)
Net investment income	-	2,102,346	(2,102,346)
Employer contributions	-	943,523	(943,523)
Other ⁽²⁾	-	17,287	(17,287)
Balance at 12/31/2014	<u>\$ 33,883,701</u>	<u>\$ 32,107,800</u>	<u>\$ 1,775,901</u>

⁽¹⁾ Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

⁽²⁾ Relates to allocation of system-wide items.

Sensitivity Analysis

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-higher (9.1%) than the current rate:

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 37,657,000	\$ 33,883,701	\$ 30,748,071
Fiduciary net position	<u>32,107,800</u>	<u>32,107,800</u>	<u>32,107,800</u>
Net pension liability/(asset)	<u>\$ 5,549,200</u>	<u>\$ 1,775,901</u>	<u>\$ (1,359,729)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TCDRS financial report. The report may be obtained on the Internet at www.tcdrs.org.

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

For the year ended September 30, 2015, the County recognized pension expense of \$583,293. At September 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 69,031
Difference between projected and actual investment earnings	292,968	-
Contributions subsequent to the measurement date	<u>671,147</u>	<u>-</u>
Total	<u>\$ 964,115</u>	<u>\$ 69,031</u>

\$671,147 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended <u>September 30,</u>	
2016	\$ 50,232
2017	50,232
2018	50,232
2019	73,241

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 \$300 per participant. The County contributions to the plan for fiscal year 2015 were \$217,885.

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, 2015, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

Annual required contribution (ARC)	\$ 290,155
Interest on net OPEB obligation	15,364
Adjustment to annual required contribution	<u>(26,631)</u>
Annual OPEB cost (expense)	278,888
Contributions made	<u>(217,885)</u>
Change in OPEB obligation	61,003
Net OPEB obligation (asset), beginning	<u>361,508</u>
Net OPEB obligation (asset) ending	<u>\$ 422,511</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, 2015, and the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 199,279	\$ 168,400	84.5%	\$ 352,415
2014	207,779	198,686	95.6%	361,508
2015	278,888	217,885	78.1%	422,511

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2014	\$ -	\$ 2,588,147	\$ 2,588,147	0%	\$ 9,363,430	27.64%

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, 2014, actuarial valuation using the following methods and assumptions:

Actuarial Methods and Assumptions

Actuarial valuation date	12/31/2014
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar amount
Amortization period	Open 20-year period
Inflation rate	2.5% per year
Investment rate of return	4.25%, net of expenses
Health care trend	Initial rate of 7.5%, declining to an ultimate rate of 4.25% after 15 years

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, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 9,053,624	\$ 9,053,624	\$ 9,095,511	\$ 41,887
Sales	1,768,000	1,768,000	1,736,032	(31,968)
Mixed beverage	23,000	23,000	23,642	642
Fees of office	704,300	704,300	923,942	219,642
Intergovernmental	244,283	244,283	263,992	19,709
Fines and forfeitures	594,775	594,775	597,956	3,181
Interest	21,355	21,355	41,741	20,386
Miscellaneous	8,100	8,100	52,031	43,931
Proceeds from sale of assets	-	-	8,010	8,010
Proceeds from insurance	-	12,009	26,474	14,465
Transfers	1,990,313	1,990,313	1,996,303	5,990
Total revenues, as classified by budget	<u>14,407,750</u>	<u>14,419,759</u>	14,765,634	<u>345,875</u>
Less: other financing sources budgeted as revenues			(2,030,787)	
Total revenues, as classified per GAAP			<u>12,734,847</u>	
EXPENDITURES				
County auditor	258,400	258,400	250,514	7,886
Information technology	149,384	149,384	127,683	21,701
Veterans service office	87,184	87,184	72,316	14,868
Human resources	70,905	70,905	62,855	8,050
Maintenance	383,020	383,020	397,990	(14,970)
Agricultural agent	181,022	181,022	171,966	9,056
Tax assessor-collector	533,902	533,902	516,268	17,634
District clerk	282,542	282,542	241,150	41,392
Child support	78,336	78,336	76,424	1,912
County clerk	391,971	391,971	373,281	18,690
Elections	272,302	272,302	223,519	48,783
County treasurer	170,730	170,730	165,368	5,362
Sheriff	2,903,756	2,914,119	2,662,750	251,369
Jail	2,181,520	2,181,520	2,120,042	61,478
County judge	190,872	190,872	192,326	(1,454)
County attorney	370,038	370,038	367,150	2,888
District attorney	443,474	445,600	424,270	21,330
Justice of the peace - Pct. #1	110,414	110,414	100,261	10,153
Justice of the peace - Pct. #2	106,248	106,248	105,012	1,236
Justice of the peace - Pct. #3	115,576	115,576	104,550	11,026
Justice of the peace - Pct. #4	102,708	102,208	108,868	(6,660)
Constable - Pct. #1	73,362	73,362	71,918	1,444
Constable - Pct. #2	77,704	77,704	68,526	9,178
Constable - Pct. #3	75,056	75,056	73,693	1,363
Constable - Pct. #4	74,294	74,294	73,121	1,173

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, 2015

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 521,324	\$ 521,324	\$ 363,455	\$ 157,869
Court administrator - 2nd / 369th district court	130,302	126,302	119,845	6,457
369th judicial district court	151,044	151,044	128,868	22,176
County court-at-law	566,270	566,270	578,662	(12,392)
Transfers to other funds	483,892	639,892	639,892	-
Other departmental	1,330,246	1,343,246	1,262,628	80,618
County special	383,454	383,454	366,645	16,809
County/state special	29,200	29,200	58,857	(29,657)
Juvenile probation	316,971	316,971	306,957	10,014
Emergency management	62,126	62,126	61,015	1,111
Rural addressing	23,563	23,563	22,923	640
Records management	31,000	31,000	43,382	(12,382)
Department of public safety	<u>15,225</u>	<u>15,225</u>	<u>4,232</u>	<u>10,993</u>
Total expenditures - sub-fund 010	<u>13,729,337</u>	<u>13,906,326</u>	<u>13,109,182</u>	<u>797,144</u>
Solid waste - sub-fund 021	117,788	117,788	125,846	(8,058)
General fund special - sub-fund 025	1,888,800	1,988,800	1,988,800	-
Indigent health - sub-fund 045	724,412	724,412	177,764	546,648
Historical commission - sub-fund 050	<u>15,000</u>	<u>15,000</u>	<u>8,597</u>	<u>6,403</u>
Total expenditures, as classified by budget	<u>16,475,337</u>	<u>16,752,326</u>	15,410,189	<u>1,342,137</u>
Less: other financing uses budgeted as expenditures			(2,758,378)	
Total expenditures, as classified per GAAP			<u>12,651,811</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>83,036</u>	
OTHER FINANCING SOURCES (USES)				
Transfers out			(775,420)	
Proceeds from sale of assets			8,010	
Proceeds from insurance			<u>26,474</u>	
Total other financing sources (uses)			<u>(740,936)</u>	
NET CHANGE IN FUND BALANCES	(2,067,587)	(2,332,567)	(657,900)	1,674,667
FUND BALANCES, BEGINNING	<u>2,881,771</u>	<u>2,881,771</u>	<u>2,881,771</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 814,184</u>	<u>\$ 549,204</u>	<u>\$ 2,223,871</u>	<u>\$ 1,674,667</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, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 3,748,500	\$ 3,748,500	\$ 3,722,448	\$(26,052)
Fees of office	833,000	833,000	1,014,986	181,986
Intergovernmental	48,000	107,798	277,820	170,022
Interest	7,098	7,098	8,055	957
Miscellaneous	<u>-</u>	<u>-</u>	<u>517</u>	<u>517</u>
Total revenues	<u>4,636,598</u>	<u>4,696,396</u>	<u>5,023,826</u>	<u>327,430</u>
EXPENDITURES				
General government	534,803	534,803	503,112	31,691
Infrastructure and environmental services	4,249,169	4,474,029	4,679,052	(205,023)
Capital outlay	260,984	60,984	577,402	(516,418)
Debt service:				
Principal	115,302	115,302	115,302	-
Interest	<u>8,714</u>	<u>8,714</u>	<u>8,714</u>	<u>-</u>
Total expenditures	<u>5,168,972</u>	<u>5,193,832</u>	<u>5,883,582</u>	<u>(689,750)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(532,374)</u>	<u>(497,436)</u>	<u>(859,756)</u>	<u>(362,320)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from the issuance of debt	-	-	291,685	291,685
Proceeds from sale of assets	-	-	148,653	148,653
Proceeds from insurance	<u>-</u>	<u>-</u>	<u>3,667</u>	<u>3,667</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>444,005</u>	<u>444,005</u>
NET CHANGE IN FUND BALANCES	<u>(532,374)</u>	<u>(497,436)</u>	<u>(415,751)</u>	<u>81,685</u>
FUND BALANCES, BEGINNING	<u>1,951,726</u>	<u>1,951,726</u>	<u>1,951,726</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,419,352</u>	<u>\$ 1,454,290</u>	<u>\$ 1,535,975</u>	<u>\$ 81,685</u>

CHEROKEE COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

SEPTEMBER 30, 2015

Plan Year Ended December 31	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 1,030,570
Interest total pension liability	2,578,735
Effect of economic/demographic (gains) or losses	(92,042)
Benefit payments/refunds of contributions	<u>(1,892,238)</u>
Net change in total pension liability	1,625,025
Total pension liability - beginning	<u>32,258,676</u>
Total pension liability - ending (a)	<u><u>\$ 33,883,701</u></u>
Plan Fiduciary Net Position	
Employer contributions	\$ 943,523
Member contributions	614,434
Investment income net of investment expenses	2,102,346
Benefit payments refunds of contributions	(1,892,238)
Administrative expenses	(24,033)
Other	<u>17,288</u>
Net change in plan fiduciary net position	1,761,320
Plan fiduciary net position - beginning	<u>30,346,480</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 32,107,800</u></u>
Net pension liability - ending (a) - (b)	<u><u>\$ 1,775,901</u></u>
Fiduciary net position as a percentage of total pension liability	94.76%
Pensionable covered payroll	\$ 8,777,633
Net pension liability as a percentage of covered payroll	20.23%

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2015

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 1,390,907	\$ 1,390,907	\$ -	\$ 8,429,398	16.5%
2015	1,564,903	1,664,903	(100,000)	9,363,430	17.8%

CHEROKEE COUNTY, TEXAS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2015

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry age normal
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	Annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.
Investment Rate of Return	8.1%
Cost-of-Living Adjustments	Cost-of-Living Adjustments are considered to be substantively automatic under GASB 68. Therefore, an annual 100% CPI cost-of-living adjustment is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Experience-based table of rates based on a study of the period 2009-2012.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality	
Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table with the projection scale AA, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.
Other Information	There were no benefit changes during the year.

CHEROKEE COUNTY, TEXAS

RETIREE HEALTH PROGRAM

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
12/31/2010	\$ -	\$ 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%
12/31/2014	-	2,588,147	2,588,147	- %	9,363,430	27.64%

**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
ASSETS					
Cash and cash equivalents	\$ -	\$ 78,403	\$ 755,598	\$ 19,309	\$ 11,965
Investments	13,905	100,008	-	-	196,996
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	-
Due from other governments	184,112	-	2,223	-	-
Total assets	<u>\$ 198,017</u>	<u>\$ 178,411</u>	<u>\$ 757,821</u>	<u>\$ 19,309</u>	<u>\$ 208,961</u>
LIABILITIES					
Accounts payable	\$ 31,009	\$ 3,598	\$ 638	\$ -	\$ 31,598
Accrued liabilities	25,019	2,864	605	-	-
Due to other funds	13,863	-	-	-	-
Total liabilities	<u>69,891</u>	<u>6,462</u>	<u>1,243</u>	<u>-</u>	<u>31,598</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable - property taxes	-	-	-	-	-
Unavailable - grants	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted for:					
General government	-	-	544,010	-	-
Justice system	-	-	70,556	-	177,363
Public safety	-	-	142,012	19,309	-
Corrections and rehabilitation	-	-	-	-	-
Debt service	-	-	-	-	-
Assigned for:					
Health and human services	128,126	-	-	-	-
Infrastructure and environmental services	-	171,949	-	-	-
Capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>128,126</u>	<u>171,949</u>	<u>756,578</u>	<u>19,309</u>	<u>177,363</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 198,017</u>	<u>\$ 178,411</u>	<u>\$ 757,821</u>	<u>\$ 19,309</u>	<u>\$ 208,961</u>

Special Revenue								
Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	State Hospital/ MHMR	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 30,106	\$ 34,124	\$ 20,179	\$ 19,704	\$ 100	\$ 12,002	\$ 255	\$ -	\$ 981,745
-	-	-	-	-	-	55,358	78,023	444,290
-	-	-	-	-	-	19,372	-	19,372
-	-	-	-	-	-	-	-	186,335
<u>\$ 30,106</u>	<u>\$ 34,124</u>	<u>\$ 20,179</u>	<u>\$ 19,704</u>	<u>\$ 100</u>	<u>\$ 12,002</u>	<u>\$ 74,985</u>	<u>\$ 78,023</u>	<u>\$ 1,631,742</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,750	\$ -	\$ -	\$ 73,593
-	-	-	-	-	-	-	-	28,488
-	-	-	-	-	-	-	28,948	42,811
-	-	-	-	-	6,750	-	28,948	144,892
-	-	-	-	-	-	18,428	-	18,428
-	-	-	-	6,091	-	-	-	6,091
-	-	-	-	6,091	-	18,428	-	24,519
-	-	-	-	-	-	-	-	544,010
-	34,124	-	-	-	-	-	-	282,043
-	-	20,179	19,704	-	-	-	-	201,204
30,106	-	-	-	-	-	-	-	30,106
-	-	-	-	-	-	56,557	-	56,557
-	-	-	-	-	5,252	-	-	133,378
-	-	-	-	-	-	-	-	171,949
-	-	-	-	-	-	-	49,075	49,075
-	-	-	-	(5,991)	-	-	-	(5,991)
<u>30,106</u>	<u>34,124</u>	<u>20,179</u>	<u>19,704</u>	<u>(5,991)</u>	<u>5,252</u>	<u>56,557</u>	<u>49,075</u>	<u>1,462,331</u>
<u>\$ 30,106</u>	<u>\$ 34,124</u>	<u>\$ 20,179</u>	<u>\$ 19,704</u>	<u>\$ 100</u>	<u>\$ 12,002</u>	<u>\$ 74,985</u>	<u>\$ 78,023</u>	<u>\$ 1,631,742</u>

CHEROKEE COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	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>
REVENUES					
Fees of office	\$ 161,953	\$ 369,061	\$ 244,389	\$ -	\$ -
Intergovernmental	982,045	5,094	50,986	5,975	441,242
Fines and forfeitures	-	-	52,274	-	5,142
Interest	94	305	-	35	687
Miscellaneous	-	-	-	-	34
Total revenues	<u>1,144,092</u>	<u>374,460</u>	<u>347,649</u>	<u>6,010</u>	<u>447,105</u>
EXPENDITURES					
Current:					
General government	-	-	74,994	-	-
Justice system	-	-	84,736	-	859,644
Public safety	-	-	49,370	3,901	-
Corrections and rehabilitation	-	-	522	-	-
Health and human services	1,508,332	-	-	-	-
Infrastructure and environmental services	-	448,739	-	-	-
Capital Outlay	-	22,806	-	-	-
Total expenditures	<u>1,508,332</u>	<u>471,545</u>	<u>209,622</u>	<u>3,901</u>	<u>859,644</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(364,240)</u>	<u>(97,085)</u>	<u>138,027</u>	<u>2,109</u>	<u>(412,539)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>440,000</u>	<u>87,772</u>	<u>-</u>	<u>-</u>	<u>243,033</u>
Total other financing sources and uses	<u>440,000</u>	<u>87,772</u>	<u>-</u>	<u>-</u>	<u>243,033</u>
NET CHANGE IN FUND BALANCES	75,760	(9,313)	138,027	2,109	(169,506)
FUND BALANCES, BEGINNING	<u>52,366</u>	<u>181,262</u>	<u>618,551</u>	<u>17,200</u>	<u>346,869</u>
FUND BALANCES, ENDING	<u>\$ 128,126</u>	<u>\$ 171,949</u>	<u>\$ 756,578</u>	<u>\$ 19,309</u>	<u>\$ 177,363</u>

Special Revenue

	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	State Hospital/ MHMR	Debt Service	Capital Projects	Total Nonmajor Governmental
\$	110,519	\$ -	\$ -	\$ -	\$ -	\$ 74,780	\$ -	\$ -	\$ 960,702
	-	-	-	-	-	-	-	-	1,485,342
	-	5,195	3,076	-	-	-	-	-	65,687
	-	-	-	-	-	-	520	167	1,808
	-	-	-	-	-	-	-	-	34
	<u>110,519</u>	<u>5,195</u>	<u>3,076</u>	<u>-</u>	<u>-</u>	<u>74,780</u>	<u>520</u>	<u>167</u>	<u>2,513,573</u>
	-	-	-	-	-	-	-	-	74,994
	-	14,127	-	-	-	-	-	-	958,507
	-	-	7,537	1,546	-	-	-	-	62,354
	111,071	-	-	-	-	-	-	-	111,593
	-	-	-	-	-	69,528	-	-	1,577,860
	-	-	-	-	-	-	-	-	448,739
	-	-	-	-	-	-	-	30,000	52,806
	<u>111,071</u>	<u>14,127</u>	<u>7,537</u>	<u>1,546</u>	<u>-</u>	<u>69,528</u>	<u>-</u>	<u>30,000</u>	<u>3,286,853</u>
	(552)	(8,932)	(4,461)	(1,546)	-	5,252	520	(29,833)	(773,280)
	-	-	-	-	-	-	-	4,615	775,420
	-	-	-	-	-	-	-	4,615	775,420
	(552)	(8,932)	(4,461)	(1,546)	-	5,252	520	(25,218)	2,140
	<u>30,658</u>	<u>43,056</u>	<u>24,640</u>	<u>21,250</u>	<u>(5,991)</u>	<u>-</u>	<u>56,037</u>	<u>74,293</u>	<u>1,460,191</u>
\$	<u>30,106</u>	<u>34,124</u>	<u>20,179</u>	<u>19,704</u>	<u>\$(5,991)</u>	<u>\$ 5,252</u>	<u>\$ 56,557</u>	<u>\$ 49,075</u>	<u>\$ 1,462,331</u>

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SINGLE AUDIT SECTION

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

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

To the Honorable County Judge
and County Commissioners
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 Cherokee County, Texas (the "County"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise of the County's basic financial statements, and have issued our report thereon dated June 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's 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 the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be significant deficiency.

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*, and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001.

Cherokee County's Response to Findings

Cherokee County's response to the findings identified in our audit 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 the financial statements and, accordingly, we express no opinion on it.

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 27, 2016



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

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 a direct and material effect on each of the County's major state programs for the year ended September 30, 2015. The County's major state programs are identified in the summary of auditor's 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 2015-002 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, 2015.

Unmodified Opinion on Each of the Other Major State Programs

In our opinion, 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 each of its other major state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2015.

Other Matters

The County's response to the noncompliance findings identified in our audit are 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 as a basis for designing 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 *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 material weaknesses and significant deficiencies.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 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 responses to the internal control over compliance findings identified in our audit are 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 *UGMS*. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
June 27, 2016

CHEROKEE COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF STATE AWARDS
SEPTEMBER 30, 2015

State Grantor/Pass-through Grantor/ Program Title	Pass-through Grantor Number	Expenditures
<u>TEXAS TASK FORCE ON INDIGENT DEFENSE</u>		
Passed through the Office of Court Administration Indigent Defense Services		\$ 42,122
Total Passed through the Office of Court Administrator		<u>42,122</u>
Total Texas Task Force on Indigent Defense		<u>42,122</u>
<u>TEXAS DEPARTMENT OF TRANSPORTATION</u>		
County Transportation Infrastructure Fund		<u>178,774</u>
Total Texas Department of Transportation		<u>178,774</u>
<u>COMMISSION ON STATE EMERGENCY COMMUNICATIONS</u>		
Passed through East Texas Council of Governments: Mapping & 911 Data Base Services		<u>22,923</u>
Total Passed through East Texas Council of Governments		<u>22,923</u>
Total Commission on State Emergency Communications		<u>22,923</u>
<u>TEXAS DEPARTMENT OF STATE HEALTH SERVICES</u>		
Tuberculosis/Primary Care	2015-001402	9,797
Tuberculosis/Primary Care	2016-001402	1,121
CHS/Primary Health Care	2015-046177-001	94,282
CHS/Primary Health Care	2016-048599-001	20,831
Extended Primary Health Care	2015-046734-001	274,572
Extended Primary Health Care	2016-046734-001	11,690
Immunization Branch - Locals	2015-001056	101,188
Immunization Branch - Locals	2016-001056	10,951
Breast and Cervical Cancer Services	2015-047045-001	85,012
RLSS/Local Public Health System	2015-001272-00	27,368
RLSS/Local Public Health System	2016-001272-00	<u>7,782</u>
Total Texas Department of State Health Services		<u>644,594</u>
TOTAL STATE EXPENDITURES		<u>\$ 888,413</u>

CHEROKEE COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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, 2015

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? 2015-001

Noncompliance material to financial statements noted? No

State Awards:

Internal control over major programs:

Material weakness(es) identified? 2015-002

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 2015-002

Identification of major programs:

Name of State Program or Cluster:

- CHS/Primary Health Care
- Extended Primary Health Care
- County Transportation Infrastructure Fund

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

Auditee qualified as low-risk auditee under State of Texas Uniform Grant Management Standards? No

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

Item 2015-001:

Condition: Journal entries were not always filed along with sufficient supporting documentation.

Criteria: All non-system generated journal entries should be filed with supporting documentation.

Cause: The County does not have a policy for ensuring proper back up is filed with all journal entries.

Effect: It is difficult to ensure that entries are being recorded correctly without access to supporting documentation.

Recommendation: All journal entries should be filed with supporting documentation to ensure transactions are being accounted for properly.

Management's Response: We will strive to, in the future, be more diligent in our supporting documentation for journal entries.

Contact Person Responsible
for Corrective Action: L.H. Crockett, County Auditor

Anticipated Completion Date: Immediately

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

Findings and Questioned Costs for State Awards

Finding 2015-002

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:	\$233,708
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.