

**CHEROKEE COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2017**

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**CHEROKEE COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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**CHEROKEE COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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# **INTRODUCTORY SECTION**

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**CHEROKEE COUNTY, TEXAS**

**SEPTEMBER 30, 2017**

**COUNTY JUDGE**

Chris Davis

**COUNTY COMMISSIONERS**

Kelly Traylor

Steven Norton

Patrick Reagan

Byron Underwood

**COUNTY AUDITOR**

Amanda Dover

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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, 2017, 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, 2017, 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.

### ***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 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 combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements 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 26, 2018, 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 26, 2018

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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 its financial activities for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the financial statements and related footnotes.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$13,039,323 (net position). Of this amount, \$5,178,620 (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 \$1,301,891.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,185,990, an increase of \$506,911 in comparison with the prior year. Approximately 94% of this total amount, \$4,888,053, 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 \$1,237,784 or 9% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) increased by \$175,525 (4%) 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 the results of the County's operations during the 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 reports all of its activities as *governmental activities*. 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 \$13,039,323 as of September 30, 2017.

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	
	2017	2016
Current and other assets	\$ 9,521,581	\$ 9,366,308
Capital assets	<u>8,531,167</u>	<u>9,128,639</u>
Total assets	<u>18,052,748</u>	<u>18,494,947</u>
Deferred outflows - pensions	<u>2,544,815</u>	<u>2,980,662</u>
Total deferred outflows of resources	<u>2,544,815</u>	<u>2,980,662</u>
Long-term liabilities	4,943,150	4,767,625
Other liabilities	<u>2,094,312</u>	<u>2,075,767</u>
Total liabilities	<u>7,037,462</u>	<u>6,843,392</u>
Deferred inflows - pensions	<u>520,778</u>	<u>291,003</u>
Total deferred inflows of resources	<u>520,778</u>	<u>291,003</u>
Net position:		
Net investment in capital assets	7,562,766	8,592,161
Restricted	297,937	320,135
Unrestricted	<u>5,178,620</u>	<u>5,428,918</u>
Total net position	<u>\$ 13,039,323</u>	<u>\$ 14,341,214</u>

**Governmental Activities.** Governmental activities decreased Cherokee County's net position by \$1,301,891. A key element of this decrease in net position was a \$951,249 or 4% decrease in fiscal year 2017 revenues as compared to fiscal year 2016.

## CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2017	2016
<b>REVENUES</b>		
Program revenues:		
Fees, fines, and charges for services	\$ 3,493,535	\$ 3,432,291
Operating grants and contributions	1,833,901	2,564,904
General revenues:		
Property taxes	14,073,852	14,224,104
Sales and other taxes	1,780,802	1,776,773
Gain on disposal of capital assets	84,802	35,553
Investment income	77,571	49,596
Miscellaneous	76,089	288,580
Total revenues	21,420,552	22,371,801
<b>EXPENSES</b>		
General government	5,498,164	5,113,406
Justice system	3,562,455	3,584,746
Public safety	3,139,893	2,907,055
Corrections and rehabilitation	2,474,884	2,468,527
Health and human services	1,260,123	1,671,662
Community and economic development	199,270	190,260
Infrastructure and environmental	6,573,681	7,040,418
Interest and fiscal charges	13,973	12,662
Total expenses	22,722,443	22,988,736
<b>DECREASE IN NET POSITION</b>	( 1,301,891)	( 616,935)
<b>NET POSITION, BEGINNING</b>	14,341,214	14,958,149
<b>NET POSITION, ENDING</b>	\$ 13,039,323	\$ 14,341,214

### 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 \$5,185,990 which is an increase of \$506,911 from last year's total of \$4,679,079.

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 \$1,237,784. 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 9% of the total General Fund expenditures. Additionally, revenues decreased primarily because of decreased funding levels for certain Federal and State grants.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$567,805. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,195,977 less than final budgeted appropriations.

## CAPITAL ASSETS

Cherokee County's investment in capital assets for its governmental activities as of September 30, 2017, amounts to \$8,531,167 (net of accumulated depreciation), a decrease of \$597,472 from the prior year. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

### CHEROKEE COUNTY CAPITAL ASSETS

	Capital Assets	
	2017	2016
Land	\$ 544,383	\$ 544,383
Buildings	12,577,334	12,481,033
Infrastructure	111,448,764	111,448,764
Improvements	2,631,376	2,627,726
Machinery and other equipment	11,892,749	11,405,399
Less: accumulated depreciation	( 130,563,439)	( 129,378,666)
Total capital assets, net of accumulated depreciation	<u>\$ 8,531,167</u>	<u>\$ 9,128,639</u>

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

## LONG-TERM DEBT

At September 30, 2017, the County had outstanding notes payable of \$968,401 of which \$537,456 was issued in the current year. Principal payments of \$105,533 were made on notes payable in the current year, and interest expense on notes payable for the year was \$13,973. 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>2017</u>	<u>2016</u>
Notes payable	\$ 968,401	\$ 536,478
Compensated absences	233,872	268,188
Net pension liability	3,199,885	3,483,928
Other post employment benefits	<u>540,992</u>	<u>479,031</u>
Total outstanding debt	<u>\$ 4,943,150</u>	<u>\$ 4,767,625</u>

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

- The tax rate for the fiscal year ended September 30, 2018 saw no increase from the prior year, and remained at .5950 per \$100 valuation.
- Continued increases in the property values in Cherokee County are expected to provide an additional \$704,029 of property tax revenue as compared to the fiscal year ended September 30, 2017.
- The County has budgeted for the replacement and upgrade of road and bridge equipment in 2018 through issuance of lease-purchase notes payable. The budgeted financing and expenditure for this equipment is expected to be \$807,324.

### 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, 135 S. Main Street, Rusk, Texas 75785.

**BASIC  
FINANCIAL STATEMENTS**

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# CHEROKEE COUNTY, TEXAS

## STATEMENT OF NET POSITION

SEPTEMBER 30, 2017

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,656,680
Investments	3,047,536
Receivables, net of allowance	2,618,428
Due from other governments	198,937
Capital assets:	
Land	544,383
Buildings and improvements	12,577,334
Infrastructure	111,448,764
Improvements other than buildings	2,631,376
Equipment	11,892,749
Less: accumulated depreciation	( 130,563,439)
Total capital assets	<u>8,531,167</u>
Total assets	<u>18,052,748</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows - pensions	<u>2,544,815</u>
Total deferred outflows of resources	<u>2,544,815</u>
<b>LIABILITIES</b>	
Accounts payable	421,549
Accrued liabilities	424,914
Due to others	1,194,713
Unearned revenue	53,136
Noncurrent liabilities:	
Due within one year	519,709
Due in more than one year	<u>4,423,441</u>
Total liabilities	<u>7,037,462</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows - pensions	<u>520,778</u>
Total deferred inflows of resources	<u>520,778</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,562,766
Restricted	297,937
Unrestricted	<u>5,178,620</u>
Total net position	<u>\$ 13,039,323</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, 2017**

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	\$ 5,498,164	\$ 1,216,734	\$ 45,338	\$( 4,236,092)
Justice system	3,562,455	914,612	830,911	( 1,816,932)
Public safety	3,139,893	219,749	22,000	( 2,898,144)
Corrections and rehabilitation	2,474,884	96,777	3,355	( 2,374,752)
Health and human services	1,260,123	185,291	499,829	( 575,003)
Community and economic development	199,270	-	-	( 199,270)
Infrastructure and environmental services	6,573,681	860,372	432,468	( 5,280,841)
Interest and fiscal charges	13,973	-	-	( 13,973)
Total governmental activities	<u>22,722,443</u>	<u>3,493,535</u>	<u>1,833,901</u>	<u>( 17,395,007)</u>
Total primary government	<u>\$ 22,722,443</u>	<u>\$ 3,493,535</u>	<u>\$ 1,833,901</u>	<u>( 17,395,007)</u>
General revenues				
Taxes:				
				9,995,724
				4,078,128
				1,759,962
				20,840
				84,802
				77,571
				76,089
				<u>16,093,116</u>
				( 1,301,891)
				<u>14,341,214</u>
				<u>\$ 13,039,323</u>

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

# CHEROKEE COUNTY, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

SEPTEMBER 30, 2017

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 2,055,471	\$ 1,601,209	\$ 3,656,680
Investments	2,991,476	-	56,060	3,047,536
Due from other funds	-	782,335	-	782,335
Receivables (net of allowance for uncollectibles)				
Taxes	1,694,589	543,145	8,088	2,245,822
Accounts	372,606	-	-	372,606
Due from other governments	94,827	-	104,110	198,937
Total assets	5,153,498	3,380,951	1,769,467	10,303,916
<b>LIABILITIES</b>				
Accounts payable	194,347	178,907	48,295	421,549
Accrued liabilities	313,887	64,348	46,679	424,914
Due to other funds	782,335	-	-	782,335
Due to others	99,713	1,095,000	-	1,194,713
Unearned revenues	53,136	-	-	53,136
Total liabilities	1,443,418	1,338,255	94,974	2,876,647
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable - property taxes	1,366,243	527,848	5,903	1,899,994
Unavailable - court fines and fees	341,285	-	-	341,285
Total deferred inflows of resources	1,707,528	527,848	5,903	2,241,279
<b>FUND BALANCES</b>				
Restricted for:				
Justice system	-	-	161,456	161,456
Public safety	-	-	51,574	51,574
Corrections and rehabilitation	-	-	23,134	23,134
Debt service	-	-	61,773	61,773
Assigned for:				
Health and human services	-	-	230,013	230,013
Infrastructure and environmental services	-	1,514,848	1,083,145	2,597,993
Subsequent year's budget	764,768	-	-	764,768
Capital projects	-	-	57,495	57,495
Unassigned	1,237,784	-	-	1,237,784
Total fund balances	2,002,552	1,514,848	1,668,590	5,185,990
Total liabilities, deferred inflows and fund balance	\$ 5,153,498	\$ 3,380,951	\$ 1,769,467	\$ 10,303,916

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, 2017**

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

Total fund balance - governmental funds	\$ 5,185,990
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,531,167
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.	2,241,279
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.	( 1,237,809)
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>1,681,304</u> )
Net position of governmental activities	\$ <u><u>13,039,323</u></u>

**CHEROKEE COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 10,149,126	\$ 4,133,157	\$ 2,404	\$ 14,284,687
Sales	1,759,962	-	-	1,759,962
Mixed beverage	20,840	-	-	20,840
Fees of office	873,591	925,974	961,599	2,761,164
Intergovernmental	320,027	619,226	1,054,603	1,993,856
Fines and forfeitures	678,054	-	53,710	731,764
Interest	49,118	22,962	5,491	77,571
Miscellaneous	68,740	7,300	49	76,089
Total revenues	<u>13,919,458</u>	<u>5,708,619</u>	<u>2,077,856</u>	<u>21,705,933</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,558,870	540,089	194,307	5,293,266
Justice system	2,549,811	-	930,488	3,480,299
Public safety	2,999,752	-	15,762	3,015,514
Corrections and rehabilitation	2,202,407	-	77,398	2,279,805
Health and human services	284,251	-	939,416	1,223,667
Community and economic development	192,812	-	-	192,812
Infrastructure and environmental services	151,095	5,128,820	461,578	5,741,493
Capital outlay	161,708	487,692	40,763	690,163
Debt service:				
Principal	15,791	89,742	-	105,533
Interest	967	13,006	-	13,973
Total expenditures	<u>13,117,464</u>	<u>6,259,349</u>	<u>2,659,712</u>	<u>22,036,525</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>801,994</u>	<u>( 550,730)</u>	<u>( 581,856)</u>	<u>( 330,592)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	685,468	685,468
Transfers out	( 685,468)	-	-	( 685,468)
Proceeds from issuance of debt	-	537,456	-	537,456
Proceeds from sale of assets	11,859	85,858	-	97,717
Proceeds from insurance	17,652	184,678	-	202,330
Total other financing sources (uses)	<u>( 655,957)</u>	<u>807,992</u>	<u>685,468</u>	<u>837,503</u>
<b>NET CHANGE IN FUND BALANCES</b>	146,037	257,262	103,612	506,911
<b>FUND BALANCES, BEGINNING</b>	<u>1,856,515</u>	<u>1,257,586</u>	<u>1,564,978</u>	<u>4,679,079</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 2,002,552</u>	<u>\$ 1,514,848</u>	<u>\$ 1,668,590</u>	<u>\$ 5,185,990</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, 2017

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

Net change in fund balance - governmental funds	\$	506,911
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.	(	597,472)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(	370,183)
The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	(	537,456)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		105,533
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>409,224</u> )
Change in net position of governmental activities	\$	<u>( 1,301,891)</u>

**CHEROKEE COUNTY, TEXAS**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**

**SEPTEMBER 30, 2017**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ <u>5,223,760</u>
Total assets	<u>5,223,760</u>
<b>LIABILITIES</b>	
Due to others	<u>5,223,760</u>
Total liabilities	\$ <u><u>5,223,760</u></u>

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



# CHEROKEE COUNTY, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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

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

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

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

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

The County reports the following major governmental funds:

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

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

The County also reports fiduciary funds:

**Agency Funds** – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

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

#### **E. Measurement Focus and Basis of Accounting**

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

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

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

#### **F. Budgetary Information**

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

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

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

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

At year-end, expenditures exceeded appropriations in certain departments (the legal level of budgetary control). The departmental budgetary overages are as follows:

Fund	Department	Overage
General	Justice of the peace - Pct. #1	\$ 3,767
	Justice of the peace - Pct. #2	6,215
	Justice of the peace - Pct. #3	9,585
	Justice of the peace - Pct. #4	10,778
	County special	32,414
	County/state special	10,442
	Records management	1,332
Road and Bridge	Precinct 2	199,375

These overages were funded with existing fund balance.

### **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. Investments for the County are reported at fair value, except for the position in investment pools. All investment income is recognized as revenue in the appropriate fund's statement of activity and/or statement of revenues, expenditures, and changes in fund balance.

### **H. Capital Assets**

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. 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 the 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 employment 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, 2017, was \$.5900 per \$100 and was allocated as follows:

General fund	\$ 0.4117
General fund - indigent health	0.0083
Road and bridge fund	<u>0.1750</u>
	<u>\$ 0.5950</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.

## II. 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, 2017, 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

As of September 30, 2017, the County had the following investments:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (days)</u>	<u>S&amp;P Rating</u>
TexStar	\$ 30,964	27	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.

TexStar has a redemption notice period of one day and may redeem daily. The investment pool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects the pool’s liquidity.

*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	\$ 2,100,527	\$ 812,623	\$ 8,865	\$ 2,922,015
Sales tax	285,592	-	-	285,592
Mixed beverage tax	5,038	-	-	5,038
Court fines receivable	5,651,057	-	-	5,651,057
Other	31,321	-	-	31,321
Less: allowance for uncollectibles	<u>( 6,006,340)</u>	<u>( 269,478)</u>	<u>( 777)</u>	<u>( 6,276,595)</u>
Net accounts receivable	<u>\$ 2,067,195</u>	<u>\$ 543,145</u>	<u>\$ 8,088</u>	<u>\$ 2,618,428</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, 2017, is \$53,136.

**E. Due to Others**

At September 30, 2017, the County held \$1,095,000 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, 2017, the County also held \$99,713 of the state portion of fines and fees collected for the third calendar quarter of 2017.

## F. Capital Assets

Capital asset activity for the year ended September 30, 2017, is as follows:

	<u>Balance 9/30/2016</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>Balance 9/30/2017</u>
Governmental activities				
Capital assets not depreciated:				
Land	\$ 544,383	\$ -	\$ -	\$ 544,383
Total capital assets not being depreciated	<u>544,383</u>	<u>-</u>	<u>-</u>	<u>544,383</u>
Capital assets being depreciated:				
Buildings	12,481,033	101,801	5,500	12,577,334
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,627,726	3,650	-	2,631,376
Machinery and other equipment	<u>11,405,399</u>	<u>825,700</u>	<u>338,350</u>	<u>11,892,749</u>
Total capital assets being depreciated	137,962,922	931,151	343,850	138,550,223
Less: accumulated depreciation:				
Buildings	8,365,788	291,513	5,500	8,651,801
Infrastructure	110,250,933	135,647	-	110,386,580
Improvements	1,788,899	131,415	-	1,920,314
Machinery and other equipment	<u>8,973,046</u>	<u>957,133</u>	<u>325,435</u>	<u>9,604,744</u>
Total capital assets being depreciated	129,378,666	1,515,708	330,935	130,563,439
Total depreciable assets, net	<u>8,584,256</u>	<u>( 584,557)</u>	<u>12,915</u>	<u>7,986,784</u>
Total capital assets	<u>\$ 9,128,639</u>	<u>\$ ( 584,557)</u>	<u>\$ 12,915</u>	<u>\$ 8,531,167</u>

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

Governmental activities:	
General government	\$ 88,908
Justice system	9,561
Public safety	283,936
Corrections and rehabilitation	153,356
Health and human services	25,899
Community and economic development	2,779
Infrastructure and environmental services	<u>951,269</u>
Total governmental activities depreciation expense	<u>\$ 1,515,708</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>
Road and bridge fund	General fund	\$ <u>782,335</u>
		\$ <u><u>782,335</u></u>

Interfund transfers for the fiscal year ended September 30, 2017, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ <u>685,468</u>	Nonmajor funds	Supplement fund sources
Total transfers	\$ <u><u>685,468</u></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, 2017.

	Balance September 30, 2016	Additions	Retirements	Balance September 30, 2017	Amounts Due Within One Year
Notes payable	\$ 536,478	\$ 537,456	\$ 105,533	\$ 968,401	\$ 434,380
Compensated absences	268,188	392,330	426,646	233,872	85,329
Net pension liability	3,483,928	729,422	1,013,465	3,199,885	-
Net OPEB obligation	<u>479,031</u>	<u>275,226</u>	<u>213,265</u>	<u>540,992</u>	<u>-</u>
Total governmental activities	\$ <u><u>4,767,625</u></u>	\$ <u><u>1,934,434</u></u>	\$ <u><u>1,758,909</u></u>	\$ <u><u>4,943,150</u></u>	\$ <u><u>519,709</u></u>

The compensated absences, net pension 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, 2017, 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 \$870,014 are payable in monthly installments with interest of 2.20%-5.00%. Final maturity of the notes is November 16, 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>
2018	\$ 434,380	\$ 21,202	\$ 455,582
2019	166,032	12,987	179,019
2020	<u>367,989</u>	<u>9,384</u>	<u>377,373</u>
Total	<u>\$ 968,401</u>	<u>\$ 43,573</u>	<u>\$ 1,011,974</u>

### III. 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](http://www.tcdrs.org).

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

##### **Benefits Provided**

TCDRS provides retirement, disability and survivor benefits for all eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

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. By law, employee accounts earn 7% interest. 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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	160
Inactive employees entitled to but not yet receiving benefits	205
Active employees	<u>245</u>
	<u><u>610</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 8.36% and 9.75% in calendar years 2016 and 2017, respectively. The County’s contributions to TCDRS for the year ended September 30, 2017, were \$1,000,667, 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, 2016, 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, 2016, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.5% per year
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

The County has no automatic cost-of-living adjustments (“COLA”) and one is not considered to be substantively automatic. Therefore, no assumption for future cost-of-living adjustments is included in the actuarial valuation. Each year, the County may elect an ad-hoc COLA for its retirees.

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 and then projected with 110% of the MP-2014 Ultimate Scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table for males projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

The actuarial assumptions that determined the total pension liability as of December 31, 2016, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012, except for mortality assumptions. Mortality assumptions were updated for the 2015 valuation to reflect projected improvements.

The long-term expected rate of return on pension plan investments is 8.0%. 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 2017 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:

<b>Asset Class</b>	<b>Benchmark</b>	<b>Target Allocation</b> <sup>(1)</sup>	<b>Geometric Real Rate of Return (Expected minus Inflation)</b> <sup>(2)</sup>
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities - Emerging	MSCI EM Standard (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Commodities	Bloomberg Commodities Index	0.00%	0.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

<sup>(1)</sup> Target asset allocation adopted at the April 2017 TCDRS Board meeting.

<sup>(2)</sup> Geometric real rates of return in addition to assumed inflation of 2.0% per Cliffwater's 2017 capital market assumptions.

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

<sup>(5)</sup> 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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 35,550,192	\$ 32,066,264	\$ 3,483,928
Changes for the year:			
Service cost	1,187,975	-	1,187,975
Interest on total pension liability <sup>(1)</sup>	2,844,319	-	2,844,319
Effect of economic/demographic gains or losses	( 445,927)	-	( 445,927)
Refund of contributions	( 156,881)	( 156,881)	-
Benefit payments	( 1,918,655)	( 1,918,655)	-
Administrative expenses	-	( 25,760)	25,760
Member contributions	-	655,757	( 655,757)
Net investment income	-	2,371,928	( 2,371,928)
Employer contributions	-	1,013,384	( 1,013,384)
Other <sup>(2)</sup>	-	( 144,899)	144,899
Balance at 12/31/2016	<u>\$ 37,061,023</u>	<u>\$ 33,861,138</u>	<u>\$ 3,199,885</u>

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

<sup>(2)</sup> 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	Current	1% Increase
	7.1%	Discount Rate 8.1%	9.1%
Total pension liability	\$ 41,280,909	\$ 37,061,023	\$ 33,523,903
Fiduciary net position	<u>33,861,137</u>	<u>33,861,138</u>	<u>33,861,137</u>
Net pension liability/(asset)	<u>\$ 7,419,772</u>	<u>\$ 3,199,885</u>	<u>\$( 337,234)</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](http://www.tcdrs.org).



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

For the year ended September 30, 2017, the County recognized pension expense of \$1,418,510. At September 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 520,778
Changes in actuarial assumptions	201,162	-
Difference between projected and actual investment earnings	1,651,273	-
Contributions subsequent to the measurement date	<u>692,380</u>	<u>-</u>
Total	<u>\$ 2,544,815</u>	<u>\$ 520,778</u>

\$692,380 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	
2018	\$ 445,765
2019	468,775
2020	376,613
2021	40,504

### 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 2017 were \$213,265.

### 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, 2017, 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	20,359
Adjustment to annual required contribution	<u>( 35,288)</u>
Annual OPEB cost (expense)	275,226
Contributions made	<u>( 213,265)</u>
Change in OPEB obligation	61,961
Net OPEB obligation (asset), beginning	<u>479,031</u>
Net OPEB obligation (asset) ending	<u>\$ 540,992</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, 2017, 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
2015	\$ 278,888	\$ 217,885	78.1%	\$ 422,511
2016	276,988	220,468	79.6%	479,031
2017	275,226	213,265	77.5%	540,992

## 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%	\$ 8,777,633	29.49%

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, 2015, actuarial valuation using the following methods and assumptions:

#### Actuarial Methods and Assumptions

Inflation rate	2.50% per annum
Investment rate of return	4.25% per annum, net of expense
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level Dollar
Amortization period	20-year open amortization period
Payroll growth	N/A
Medical trend	Initial rate of 7.50%, 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.

**E. Subsequent Event**

On June 11, 2018, the County issued three notes to First National Bank Leasing, Wichita Falls, TX, each for \$269,108. The notes will be secured by the lease/purchase agreement acquiring three 2018 CAT Excavators for use by the Road & Bridge department in repair and maintenance of County infrastructure. The notes mature June 15, 2021 and pay interest at 3.16% per annum. Payments will be made annually to retire the principle until the maturity date.

**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, 2017**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 10,120,482	\$ 10,120,482	\$ 10,149,126	\$ 28,644
Sales	1,570,000	1,570,000	1,759,962	189,962
Mixed beverage	23,000	23,000	20,840	( 2,160)
Fees of office	717,500	717,500	873,591	156,091
Intergovernmental	311,183	311,183	320,027	8,844
Fines and forfeitures	582,700	582,700	678,054	95,354
Interest	28,748	28,748	49,118	20,370
Miscellaneous	9,900	9,900	68,740	58,840
Proceeds from sale of assets	-	-	11,859	11,859
Proceeds from insurance	-	17,651	17,652	1
Transfers	1,901,226	1,901,226	1,901,226	-
Total revenues, as classified by budget	<u>15,264,739</u>	<u>15,282,390</u>	15,850,195	<u>567,805</u>
Less: other financing sources budgeted as revenues			( 1,930,737)	
Total revenues, as classified per GAAP			<u>13,919,458</u>	
<b>EXPENDITURES</b>				
County auditor	271,318	271,318	266,904	4,414
Information technology	151,935	158,935	153,327	5,608
Veterans service office	98,706	98,706	88,227	10,479
Human resources	73,739	73,739	72,456	1,283
Maintenance	384,224	384,224	358,820	25,404
Agricultural agent	183,055	183,055	179,183	3,872
Tax assessor-collector	557,541	557,541	527,964	29,577
District clerk	293,671	293,671	274,849	18,822
Child support	81,855	81,855	65,073	16,782
County clerk	404,089	404,089	392,745	11,344
Elections	274,311	274,311	211,882	62,429
County treasurer	181,071	181,071	177,518	3,553
Sheriff	2,973,373	2,991,024	2,781,948	209,076
Jail	2,388,613	2,388,613	2,202,407	186,206
County judge	207,475	207,475	203,981	3,494
County attorney	379,584	379,584	369,994	9,590
District attorney	485,227	485,227	419,136	66,091
Justice of the peace - Pct. #1	110,659	110,659	114,426	( 3,767)
Justice of the peace - Pct. #2	113,495	113,495	119,710	( 6,215)
Justice of the peace - Pct. #3	122,481	122,481	132,066	( 9,585)
Justice of the peace - Pct. #4	113,895	113,895	124,673	( 10,778)
Constable - Pct. #1	76,037	76,037	74,642	1,395
Constable - Pct. #2	79,719	79,719	69,307	10,412
Constable - Pct. #3	77,020	77,020	76,135	885
Constable - Pct. #4	76,267	76,267	75,376	891

# 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, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>EXPENDITURES (Continued)</b>				
2nd judicial district court	\$ 415,434	\$ 415,434	\$ 359,134	\$ 56,300
Court administrator - 2nd / 369th district court	197,623	197,623	149,892	47,731
369th judicial district court	149,674	149,674	73,090	76,584
County court-at-law	617,335	617,335	593,803	23,532
Transfers to other funds	563,223	563,223	563,223	-
Other departmental	1,406,244	1,399,244	1,385,670	13,574
County special	378,454	378,454	410,868	( 32,414)
County/state special	29,200	29,200	39,642	( 10,442)
Juvenile probation	316,971	316,971	316,340	631
Emergency management	67,209	67,209	57,989	9,220
Rural addressing	23,563	23,563	22,937	626
Records management	43,000	43,000	44,332	( 1,332)
Department of public safety	7,625	7,625	3,126	4,499
Total expenditures - sub-fund 010	14,374,915	14,392,566	13,552,795	839,771
Solid waste - sub-fund 021	181,014	181,014	113,120	67,894
General fund special - sub-fund 025	1,842,000	1,842,000	1,842,000	-
Indigent health - sub-fund 045	469,500	469,500	182,614	286,886
Historical commission - sub-fund 050	15,055	15,055	13,629	1,426
Total expenditures, as classified by budget	16,882,484	16,900,135	15,704,158	1,195,977
Less: other financing uses budgeted as expenditures			( 2,586,694)	
Total expenditures, as classified per GAAP			13,117,464	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>			801,994	
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out			( 685,468)	
Proceeds from sale of assets			11,859	
Proceeds from insurance			17,652	
Total other financing sources (uses)			( 655,957)	
<b>NET CHANGE IN FUND BALANCES</b>	( 1,617,745)	( 1,617,745)	146,037	1,763,782
<b>FUND BALANCES, BEGINNING</b>	1,856,515	1,856,515	1,856,515	-
<b>FUND BALANCES, ENDING</b>	\$ 238,770	\$ 238,770	\$ 2,002,552	\$ 1,763,782

# 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, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 4,119,311	\$ 4,119,311	\$ 4,133,157	\$ 13,846
Fees of office	880,000	880,000	925,974	45,974
Intergovernmental	48,000	370,803	619,226	248,423
Interest	10,155	10,155	22,962	12,807
Miscellaneous	-	-	7,300	7,300
Total revenues	5,057,466	5,380,269	5,708,619	328,350
<b>EXPENDITURES</b>				
Non-departmental	570,477	570,477	540,089	30,388
Precinct 1	968,312	1,137,951	1,036,518	101,433
Precinct 2	1,254,117	1,638,610	1,837,985	( 199,375)
Precinct 3	1,110,649	1,373,408	1,360,315	13,093
Precinct 4	1,111,349	1,465,361	1,431,775	33,586
License and weight division	60,297	60,297	52,667	7,630
Total expenditures	5,075,201	6,246,104	6,259,349	( 13,245)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	( 17,735)	( 865,835)	( 550,730)	315,105
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the issuance of debt	-	537,456	537,456	-
Proceeds from sale of assets	-	-	85,858	85,858
Proceeds from insurance	-	119,406	184,678	65,272
Total other financing sources (uses)	-	656,862	807,992	151,130
<b>NET CHANGE IN FUND BALANCES</b>				
	( 17,735)	( 208,973)	257,262	466,235
<b>FUND BALANCES, BEGINNING</b>				
	1,257,586	1,257,586	1,257,586	-
<b>FUND BALANCES, ENDING</b>				
	\$ 1,239,851	\$ 1,048,613	\$ 1,514,848	\$ 466,235



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

**SEPTEMBER 30, 2017**

<b>Plan Year Ended December 31</b>	<u><b>2014</b></u>	<u><b>2015</b></u>	<u><b>2016</b></u>
<b>Total Pension Liability</b>			
Service Cost	\$ 1,030,570	\$ 1,087,069	\$ 1,187,975
Interest total pension liability	2,578,735	2,715,879	2,844,319
Effect of plan changes	-	( 172,587)	-
Effect of assumption changes or inputs	-	402,325	-
Effect of economic/demographic (gains) or losses	( 92,042)	( 326,643)	( 445,927)
Benefit payments/refunds of contributions	( 1,892,238)	( 2,039,552)	( 2,075,536)
Net change in total pension liability	1,625,025	1,666,491	1,510,831
Total pension liability - beginning	<u>32,258,676</u>	<u>33,883,701</u>	<u>35,550,192</u>
Total pension liability - ending (a)	<u>\$ 33,883,701</u>	<u>\$ 35,550,192</u>	<u>\$ 37,061,023</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	\$ 943,523	\$ 1,017,936	\$ 1,013,384
Member contributions	614,434	659,026	655,757
Investment income net of investment expenses	2,102,346	369,520	2,371,928
Benefit payments refunds of contributions	( 1,892,238)	( 2,039,552)	( 2,075,536)
Administrative expenses	( 24,033)	( 23,062)	( 25,760)
Other	<u>17,288</u>	<u>( 25,403)</u>	<u>( 144,899)</u>
Net change in plan fiduciary net position	1,761,320	( 41,535)	1,794,874
Plan fiduciary net position - beginning	<u>30,346,480</u>	<u>32,107,800</u>	<u>32,066,265</u>
Plan fiduciary net position - ending (b)	<u>\$ 32,107,800</u>	<u>\$ 32,066,265</u>	<u>\$ 33,861,138</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,775,901</u>	<u>\$ 3,483,927</u>	<u>\$ 3,199,885</u>
Fiduciary net position as a percentage of total pension liability	94.76%	90.20%	91.37%
Pensionable covered payroll	\$ 8,777,633	\$ 9,414,652	\$ 9,367,951
Net pension liability as a percentage of covered payroll	20.23%	37.01%	34.16%

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

**CHEROKEE COUNTY, TEXAS**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**SEPTEMBER 30, 2017**

<b>Fiscal Year Ended September 30,</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pensionable Covered Payroll</b>	<b>Actual Contribution as a % of Covered Payroll</b>
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%
2016	880,278	1,015,379	( 135,101)	9,028,405	11.2%
2017	900,667	1,000,667	( 100,000)	9,607,344	10.4%

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

## CHEROKEE COUNTY, TEXAS

### NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2017

<b>Valuation Timing</b>	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.
<b>Actuarial Cost Method</b>	Entry age normal
<b>Amortization Method</b>	Level percentage of payroll, closed
<b>Remaining Amortization Period</b>	10 years (based on contribution rate calculated in 12/31/2016 valuation)
<b>Asset Valuation Method</b>	5-year smoothed market
<b>Inflation</b>	3.0%
<b>Salary Increases</b>	Varies by age and service. 4.9% average over career including inflation.
<b>Investment Rate of Return</b>	8.0%, net of investment expenses, including inflation.
<b>Retirement Age</b>	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
<b>Mortality</b>	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
<b>Changes in Plan Provisions Reflected in the Schedule</b>	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

**CHEROKEE COUNTY, TEXAS**

**RETIREE HEALTH PROGRAM**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a/c)</b>
12/31/2010	\$ -	\$ 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	- %	8,777,633	29.49%

**COMBINING  
FUND STATEMENTS**

**CHEROKEE COUNTY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2017**

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
<b>ASSETS</b>					
Cash and cash equivalents	\$ 168,538	\$ 225,133	\$ 861,551	\$ 16,997	\$ 170,618
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	-
Due from other governments	89,336	-	14,774	-	-
Total assets	<u>\$ 257,874</u>	<u>\$ 225,133</u>	<u>\$ 876,325</u>	<u>\$ 16,997</u>	<u>\$ 170,618</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 20,896	\$ 3,392	\$ 9,446	\$ -	\$ 14,561
Accrued liabilities	20,036	3,775	1,700	-	21,168
Total liabilities	<u>40,932</u>	<u>7,167</u>	<u>11,146</u>	<u>-</u>	<u>35,729</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable - property taxes	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Restricted for:					
Justice system	-	-	-	-	134,889
Public safety	-	-	-	16,997	-
Corrections and rehabilitation	-	-	-	-	-
Debt service	-	-	-	-	-
Assigned for:					
Health and human services	216,942	-	-	-	-
Infrastructure and environmental services	-	217,966	865,179	-	-
Capital projects	-	-	-	-	-
Total fund balances	<u>216,942</u>	<u>217,966</u>	<u>865,179</u>	<u>16,997</u>	<u>134,889</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 257,874</u>	<u>\$ 225,133</u>	<u>\$ 876,325</u>	<u>\$ 16,997</u>	<u>\$ 170,618</u>

Special Revenue

Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	State Hospital/ MHMR	Debt Service	Capital Projects	Total Nonmajor Governmental
23,134	\$ 26,567	\$ 18,329	\$ 16,248	\$ 13,071	\$ 3,528	\$ 57,495	\$ 1,601,209
-	-	-	-	-	56,060	-	56,060
-	-	-	-	-	8,088	-	8,088
-	-	-	-	-	-	-	104,110
<u>\$ 23,134</u>	<u>\$ 26,567</u>	<u>\$ 18,329</u>	<u>\$ 16,248</u>	<u>\$ 13,071</u>	<u>\$ 67,676</u>	<u>\$ 57,495</u>	<u>\$ 1,769,467</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,295
-	-	-	-	-	-	-	46,679
-	-	-	-	-	-	-	94,974
-	-	-	-	-	5,903	-	5,903
-	-	-	-	-	5,903	-	5,903
-	26,567	-	-	-	-	-	161,456
-	-	18,329	16,248	-	-	-	51,574
23,134	-	-	-	-	-	-	23,134
-	-	-	-	-	61,773	-	61,773
-	-	-	-	13,071	-	-	230,013
-	-	-	-	-	-	-	1,083,145
-	-	-	-	-	-	57,495	57,495
<u>23,134</u>	<u>26,567</u>	<u>18,329</u>	<u>16,248</u>	<u>13,071</u>	<u>61,773</u>	<u>57,495</u>	<u>1,668,590</u>
<u>\$ 23,134</u>	<u>\$ 26,567</u>	<u>\$ 18,329</u>	<u>\$ 16,248</u>	<u>\$ 13,071</u>	<u>\$ 67,676</u>	<u>\$ 57,495</u>	<u>\$ 1,769,467</u>

**CHEROKEE COUNTY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
<b>REVENUES</b>					
Property taxes	\$ -	\$ -		\$ -	\$ -
Fees of office	185,291	423,275	250,011	-	-
Intergovernmental	499,754	5,068	16,857	8,428	524,496
Fines and forfeitures	-	-	37,907	-	6,852
Interest	1,210	1,399	-	63	1,742
Miscellaneous	-	-	-	-	34
Total revenues	<u>686,255</u>	<u>429,742</u>	<u>304,775</u>	<u>8,491</u>	<u>533,124</u>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	194,307	-	-
Justice system	-	-	119,113	-	805,977
Public safety	-	-	-	10,606	-
Corrections and rehabilitation	-	-	-	-	-
Health and human services	909,717	-	-	-	-
Infrastructure and environmental services	-	461,578	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>909,717</u>	<u>461,578</u>	<u>313,420</u>	<u>10,606</u>	<u>805,977</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 223,462)</u>	<u>( 31,836)</u>	<u>( 8,645)</u>	<u>( 2,115)</u>	<u>( 272,853)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	308,000	95,997	-	-	256,471
Total other financing sources and uses	<u>308,000</u>	<u>95,997</u>	<u>-</u>	<u>-</u>	<u>256,471</u>
<b>NET CHANGE IN FUND BALANCES</b>	84,538	64,161	( 8,645)	( 2,115)	( 16,382)
<b>FUND BALANCES, BEGINNING</b>	<u>132,404</u>	<u>153,805</u>	<u>873,824</u>	<u>19,112</u>	<u>151,271</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 216,942</u>	<u>\$ 217,966</u>	<u>\$ 865,179</u>	<u>\$ 16,997</u>	<u>\$ 134,889</u>



Special Revenue

Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	State Hospital/ MHMR	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,404	\$ -	\$ 2,404
72,352	-	-	-	30,670	-	-	961,599
-	-	-	-	-	-	-	1,054,603
-	4,749	4,148	54	-	-	-	53,710
-	-	-	-	-	529	548	5,491
-	15	-	-	-	-	-	49
<u>72,352</u>	<u>4,764</u>	<u>4,148</u>	<u>54</u>	<u>30,670</u>	<u>2,933</u>	<u>548</u>	<u>2,077,856</u>
-	-	-	-	-	-	-	194,307
-	5,398	-	-	-	-	-	930,488
-	-	2,346	2,810	-	-	-	15,762
77,398	-	-	-	-	-	-	77,398
-	-	-	-	29,699	-	-	939,416
-	-	-	-	-	-	-	461,578
-	-	-	-	-	-	40,763	40,763
<u>77,398</u>	<u>5,398</u>	<u>2,346</u>	<u>2,810</u>	<u>29,699</u>	<u>-</u>	<u>40,763</u>	<u>2,659,712</u>
( 5,046)	( 634)	1,802	( 2,756)	971	2,933	( 40,215)	( 581,856)
-	-	-	-	25,000	-	-	685,468
-	-	-	-	25,000	-	-	685,468
( 5,046)	( 634)	1,802	( 2,756)	25,971	2,933	( 40,215)	103,612
<u>28,180</u>	<u>27,201</u>	<u>16,527</u>	<u>19,004</u>	<u>( 12,900)</u>	<u>58,840</u>	<u>97,710</u>	<u>1,564,978</u>
<u>\$ 23,134</u>	<u>\$ 26,567</u>	<u>\$ 18,329</u>	<u>\$ 16,248</u>	<u>\$ 13,071</u>	<u>\$ 61,773</u>	<u>\$ 57,495</u>	<u>\$ 1,668,590</u>

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# **COMPLIANCE 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 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, 2017, 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 26, 2018.

**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.

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Waco, Texas  
June 26, 2018