

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

CHEROKEE COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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INTRODUCTORY SECTION

CHEROKEE COUNTY, TEXAS

YEAR ENDED SEPTEMBER 30, 2011

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Katherine Pinotti

Byron Underwood

COUNTY AUDITOR

L. H. Crockett

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cherokee County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2012, on our consideration of Cherokee County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 36 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Saville, Brown & Hill, LLP

May 11, 2012

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cherokee County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cherokee County, Texas, for the fiscal year ended September 30, 2011. This analysis should be read in conjunction with the financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The assets of Cherokee County exceeded its liabilities at the close of the most recent fiscal year by \$17,661,048 (net assets). Of this amount, \$3,971,584 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets (government-wide) decreased by \$1,953,299.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$5,487,465, a decrease of \$2,560,862 in comparison with the prior year. Approximately 52% of this total amount, \$2,866,157, is *available for spending* at the County's discretion (unassigned and assigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,616,382 or 22% of the total General Fund expenditures.
- The County's total liabilities (government-wide) decreased by \$408,965 (11%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Activities presents information showing how the County's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

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

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

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Cherokee County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Cherokee County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets exceeded liabilities by \$17,661,048 as of September 30, 2011.

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

CHEROKEE COUNTY NET ASSETS

	Governmental Activities	
	2011	2010
Current and other assets	\$ 8,856,978	\$ 11,287,939
Capital assets	<u>12,045,431</u>	<u>13,971,606</u>
Total assets	<u>20,902,409</u>	<u>25,259,545</u>
Long-term liabilities	1,442,935	2,020,122
Other liabilities	<u>1,798,426</u>	<u>1,630,204</u>
Total liabilities	<u>3,241,361</u>	<u>3,650,326</u>
Net assets:		
Invested in capital assets, net of related debt	11,068,156	11,833,076
Restricted	2,621,308	432,814
Unrestricted	<u>3,971,584</u>	<u>9,343,329</u>
Total net assets	<u>\$ 17,661,048</u>	<u>\$ 21,609,219</u>

Governmental Activities. Governmental activities decreased Cherokee County's net assets by \$1,953,299. A key element of this decrease was an increase in fiscal year 2011 expenses over fiscal year 2010 expenses. The largest increase in expenses, \$443,305, was in the Infrastructure and Environmental Services function, the primary purpose of which is road repair and maintenance.

CHEROKEE COUNTY CHANGES IN NET ASSETS

	Governmental Activities	
	2011	2010
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 3,344,028	\$ 4,390,104
Operating grants and contributions	2,587,968	1,778,646
Capital grants and contributions	93,900	176,869
General revenues:		
Property taxes	11,900,022	11,835,234
Sales and other taxes	1,585,120	1,640,681
Investment income	36,037	29,151
Miscellaneous	<u>292,651</u>	<u>438,674</u>
Total revenues	<u>19,839,726</u>	<u>20,289,359</u>
EXPENSES		
General government	4,742,694	4,432,850
Justice system	2,481,837	2,334,165
Public safety	4,471,081	4,500,992
Corrections and rehabilitation	2,034,060	1,902,967
Health and human services	1,553,329	1,345,405
Community and economic development	232,845	223,606
Infrastructure and environmental	6,216,098	5,772,793
Interest and fiscal charges	<u>61,081</u>	<u>85,357</u>
Total expenses	<u>21,793,025</u>	<u>20,598,135</u>
DECREASE IN NET ASSETS	(1,953,299)	(308,776)
NET ASSETS, BEGINNING	21,609,219	20,612,454
PRIOR PERIOD ADJUSTMENT	<u>(1,994,872)</u>	<u>1,305,541</u>
NET ASSETS, BEGINNING, AS RESTATED	<u>19,614,347</u>	<u>21,917,995</u>
NET ASSETS, ENDING	<u>\$ 17,661,048</u>	<u>\$ 21,609,219</u>

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 \$5,487,465 which is a decrease of \$2,560,862 from last year's total of \$8,048,327.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,616,382. 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 22% of the total General Fund expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Capital Assets. Cherokee County's investment in capital assets for its governmental activities as of September 30, 2011, amounts to \$12,045,431 (net of accumulated depreciation), a decrease of \$1,926,175 from the prior year. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

CHEROKEE COUNTY CAPITAL ASSETS

	Capital Assets	
	2011	2010
Land	\$ 544,383	\$ 544,383
Buildings	12,327,458	12,314,351
Infrastructure	111,448,764	111,632,717
Improvements	2,249,206	2,126,092
Machinery and other equipment	9,231,413	8,548,751
Less: accumulated depreciation	<u>(123,755,793)</u>	<u>(121,194,688)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 12,045,431</u>	<u>\$ 13,971,606</u>

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

Long-term Debt. At the end of the current year, the County had bonded debt outstanding of \$615,000, which is a decrease of \$590,000 from the prior year. All of this debt represents bonds secured by future tax revenue. Related interest expense for the year was \$41,585. 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>2011</u>	<u>2010</u>
Certificates of obligation	\$ 615,000	\$ 1,205,000
Notes payable	362,275	414,121
Compensated absences	212,240	208,212
Other post employment benefits	<u>253,420</u>	<u>192,789</u>
 Total outstanding debt	 <u>\$ 1,442,935</u>	 <u>\$ 2,020,122</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the September 30, 2011, fiscal year declined from .5600 per \$100 valuation to .5500 per \$100 valuation.
- Continued increases in the property values in Cherokee County will provide additional tax revenue.

REQUESTS FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

CHEROKEE COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,094,075
Investments	5,329,186
Accounts receivable, net of allowance	1,815,451
Due from other governments	618,266
Capital assets, net:	
Land	544,383
Buildings and improvements	12,327,458
Infrastructure	111,448,764
Improvements other than buildings	2,249,206
Equipment	9,231,413
Less: accumulated depreciation	(123,755,793)
Total capital assets	<u>12,045,431</u>
 Total assets	 <u>20,902,409</u>
LIABILITIES	
Accounts payable	811,470
Accrued liabilities	4,109
Accrued interest payable	1,794
Due to others	846,384
Unearned revenue	134,669
Noncurrent liabilities:	
Due within one year	931,441
Due in more than one year	<u>511,494</u>
Total liabilities	<u>3,241,361</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,068,156
Restricted	2,621,308
Unrestricted	<u>3,971,584</u>
 Total net assets	 <u>\$ 17,661,048</u>

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

CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses for Services	Program Revenues			Net (Expense) Revenue and Change in in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government
					Governmental Activities
Primary government					
Governmental activities:					
General government	\$ 4,742,694	\$ 1,208,031	\$ 13,994	\$ -	\$(3,520,669)
Justice system	2,481,837	930,285	269,650	-	(1,281,902)
Public safety	4,471,081	226,734	1,409,550	-	(2,834,797)
Corrections and rehabilitation	2,034,060	44,282	9,505	-	(1,980,273)
Health and human services	1,553,329	173,644	782,889	-	(596,796)
Community and economic development	232,845	1,798	-	-	(231,047)
Infrastructure and environmental services	6,216,098	759,254	102,380	93,900	(5,260,564)
Interest and fiscal charges	61,081	-	-	-	(61,081)
Total governmental activities	21,793,025	3,344,028	2,587,968	93,900	(15,767,129)
Total primary government	\$ 21,793,025	\$ 3,344,028	\$ 2,587,968	\$ 93,900	(15,767,129)
General revenues					
Taxes:					
					7,794,825
					3,458,703
					646,494
					1,559,810
					25,310
					36,037
					292,651
					13,813,830
					Change in net assets (1,953,299)
					19,614,347
					Net assets, beginning, restated
					\$ 17,661,048
					Net assets, ending

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

CHEROKEE COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 292,765	\$ 302,966	\$ 498,344	\$ 1,094,075
Investments	2,489,266	1,616,374	1,223,546	5,329,186
Receivables (net of allowance for uncollectibles)				
Taxes	1,134,574	348,422	102,456	1,585,452
Accounts	229,999	-	-	229,999
Due from other governments	201,750	-	416,516	618,266
 Total assets	 \$ 4,348,354	 \$ 2,267,762	 \$ 2,240,862	 \$ 8,856,978
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 266,187	\$ 211,961	\$ 333,322	\$ 811,470
Accrued liabilities	4,109	-	-	4,109
Due to others	171,384	675,000	-	846,384
Deferred revenues	1,290,292	320,272	96,986	1,707,550
Total liabilities	1,731,972	1,207,233	430,308	3,369,513
Fund balances:				
Restricted for:				
General government	-	-	16,223	16,223
Justice system	-	-	160,696	160,696
Public safety	-	-	498,961	498,961
Health and human services	-	-	761,249	761,249
Community and economic development	-	-	1,123	1,123
Infrastructure and environmental services	-	1,060,529	61,650	1,122,179
Debt service	-	-	60,877	60,877
Assigned for capital projects	-	-	249,775	249,775
Unassigned	2,616,382	-	-	2,616,382
Total fund balances	2,616,382	1,060,529	1,810,554	5,487,465
 Total liabilities and fund balance	 \$ 4,348,354	 \$ 2,267,762	 \$ 2,240,862	 \$ 8,856,978

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

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2011

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

Total fund balance - governmental funds	\$ 5,487,465
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	12,045,431
Some of the County's revenues will be collected after year-end, but are not available soon enough to pay current year's expenditures and therefore are not reported in the governmental funds.	1,572,881
Net other post employment benefits obligation in governmental activities does not require current financial resources and therefore are not reported in the governmental funds balance sheet.	(60,631)
Long-term liabilities, including certificates of obligation payable and compensated absences, are not due and payable in the current year and accordingly, are not reported in the governmental funds.	(<u>1,384,098</u>)
Net assets of governmental activities	\$ <u>17,661,048</u>

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

CHEROKEE COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	\$ 7,750,993	\$ 3,406,549	\$ 584,178	\$ 11,741,720
Sales	1,559,810	-	-	1,559,810
Mixed beverage	25,310	-	-	25,310
Fees of office	1,078,729	827,749	527,754	2,434,232
Intergovernmental	295,550	94,189	2,028,384	2,418,123
Fines and forfeitures	689,859	-	34,713	724,572
Interest	11,097	5,236	3,518	19,851
Miscellaneous	212,395	77,677	11,659	301,731
Total revenues	11,623,743	4,411,400	3,190,206	19,225,349
EXPENDITURES				
Current:				
General government	4,009,037	484,282	3,868	4,497,187
Justice system	2,451,604	-	10,524	2,462,128
Public safety	2,613,153	-	1,451,295	4,064,448
Corrections and rehabilitation	1,876,955	-	8,323	1,885,278
Health and human services	179,420	-	1,366,970	1,546,390
Community and economic development	232,845	-	-	232,845
Infrastructure and environmental services	134,107	4,696,170	458,584	5,288,861
Capital outlay	139,398	922,257	139,100	1,200,755
Debt service:				
Principal	46,319	339,991	635,000	1,021,310
Interest	1,420	20,612	46,535	68,567
Total expenditures	11,684,258	6,463,312	4,120,199	22,267,769
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(60,515)	(2,051,912)	(929,993)	(3,042,420)
OTHER FINANCING SOURCES (USES)				
Transfers in	209,602	1,278,907	838,011	2,326,520
Transfers out	(2,116,918)	-	(209,602)	(2,326,520)
Proceeds from sale of assets	27,092	744	5,000	32,836
Proceeds from insurance	2,157	29,840	37,261	69,258
Proceeds from debt issuance	-	374,000	-	374,000
Proceeds from refinancing of debt	-	333,814	-	333,814
Payment for refinancing	-	(328,350)	-	(328,350)
Total other financing sources (uses)	(1,878,067)	1,688,955	670,670	481,558
NET CHANGE IN FUND BALANCES	(1,938,582)	(362,957)	(259,323)	(2,560,862)
FUND BALANCES, BEGINNING, RESTATED	4,554,964	1,423,486	2,069,877	8,048,327
FUND BALANCES, ENDING	\$ 2,616,382	\$ 1,060,529	\$ 1,810,554	\$ 5,487,465

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, 2011

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

Net change in fund balance - governmental funds \$(2,560,862)

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. (400,525)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 423,415

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. (379,464)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. 1,021,310

Under the modified accrual basis of accounting used in the governmental funds, expenditures are recognized for transactions that are normally paid with expendable, available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized as an expenditure under the modified accrual basis of accounting until due, rather than as it accrues. 57,173

Change in net assets of governmental activities \$(1,953,299)

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

CHEROKEE COUNTY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2011

ASSETS

Cash	\$ 1,550,180
Investments	<u>638,045</u>

Total assets	<u>\$ 2,188,225</u>
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LIABILITIES

Due to others	<u>\$ 2,188,225</u>
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Total liabilities	<u>\$ 2,188,225</u>
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The accompanying notes are an integral part of these financial statements.

CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

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. 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.

The financial statements of Cherokee County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units.

In determining the financial reporting entity, Cherokee County, Texas complies with the provisions of GASB Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, and includes all component units of which the County appointed a voting majority of the units' board and the County is either able to impose its will on the unit, or a financial benefit or burden relationship exists. Blended component units, although legally separate entities, are in substance, part of the County's operations and so data from these units are combined with data of the County. Each discretely presented component unit on the other hand, is reported in a separate column under component unit on the government-wide statements to emphasize that it is legally separate from the primary government.

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

The government-wide statements include the statement of net assets and the statement of activities, which display information about the County as a whole, excluding fiduciary activities. The effect of interfund activity has been removed from the government-wide statements, but continues to be reflected on the fund statements. Governmental activities are generally financed through taxes and intergovernmental revenue.

The statement of activities reflects the degree to which the direct expenses of a given function are offset by program revenues. Program revenues are further designated into the following categories: 1) fees, fines and charges for services provided by a specific function, and 2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All other nonmajor funds are combined into one column titled, Other Governmental Funds. Detailed statements for nonmajor funds are presented within the combining and individual fund statements and schedules.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The full accrual basis of accounting means revenues are recognized in the accounting period for which they are earned, while expenses are recognized in the period incurred. A large portion of the County's revenues are derived from property taxes, which under accrual accounting are recorded in the fiscal year in which the taxes are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

Property taxes, sales taxes, intergovernmental revenues, charges for services, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

(continued)

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

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**
(Continued)

Major governmental funds reported by the County are:

General Fund – The General Fund is used to account for resources traditionally associated with the government which are not required legally or by sound financial management to be 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 has 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.

D. **Budgetary Accounting**

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 budgetary control is by line item within each fund. The budget may be amended by the Commissioners' Court. To transfer appropriations between line items, approval from the Court must be obtained. Annual appropriations lapse at fiscal year-end.

Since the financial statements are presented in accordance with GAAP, classification and recognition of revenues and expenditures could differ between presentation in the financial statements and presentation in the budget.

E. **Encumbrances**

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.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

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

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

G. Receivables and Payables

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectible amounts.

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, 2011, was \$.5500 per \$100 and was allocated as follows:

General fund	\$ 0.3568
Contractual obligation	0.0282
County lateral road fund	<u>0.1650</u>
	<u>\$ 0.5500</u>

H. Capital Assets

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

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

I. Compensated Absences

Accrued vacation is paid to employees upon termination of employment and is accrued when incurred in the government-wide financial statements. County employees earn vacation time at the rate of 6.67 hours per month for employees with less than 10 years of service, and 10 hours per month for those employees with 10 or more years of service. With limited exceptions, the maximum accrual is three or four weeks of vacation for the respective accrual categories. A liability is not recorded for nonvesting accumulating rights to receive sick pay benefits.

J. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Net Assets

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

M. Estimates

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

II. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

As of September 30, 2011, the County had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>
TexStar	\$ 31,654	46
Citizens 1st investments	<u>5,297,532</u>	N/A
	<u>\$ 5,329,186</u>	

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

The County's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations, those of its agencies and instrumentalities, or direct obligations of Texas or its agencies instrumentalities that have a fair value of not less than the principal amount of deposits. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. As of September 30, 2011, the carrying value of the County's deposit balance was collateralized with securities held by the pledging financial institution in the County's name or by FDIC insurance.

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

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables and Allowance for Uncollectible Accounts

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Property taxes receivable	\$ 886,603	\$ 360,330	\$ 104,404	\$ 1,351,337
Court fines receivable	3,423,347	-	-	3,423,347
Intergovernmental	201,750	-	416,516	618,266
Other receivables	280,329	-	-	280,329
Less: allowance for uncollectibles	<u>(3,225,706)</u>	<u>(11,908)</u>	<u>(1,948)</u>	<u>(3,239,562)</u>
Net accounts receivable	<u>\$ 1,566,323</u>	<u>\$ 348,422</u>	<u>\$ 518,972</u>	<u>\$ 2,433,717</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Delinquent property taxes	\$ 795,190	\$ -
Court fines	229,899	-
Disaster relief grant receivable	132,363	-
Sales tax overpayment	-	132,840
Total general fund	<u>1,157,452</u>	<u>132,840</u>
Road and bridge fund:		
Delinquent property taxes	320,272	-
Total road and bridge fund	<u>320,272</u>	<u>-</u>
Nonmajor governmental funds:		
Delinquent property taxes	95,157	-
Justice assistance grant	-	1,829
Total nonmajor governmental funds	<u>95,157</u>	<u>1,829</u>
Total governmental funds	<u>\$ 1,572,881</u>	<u>\$ 134,669</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

C. Deferred Sales Tax Revenue

In October of 1996, the County entered into an agreement with the State Comptroller to repay \$332,207 of local sales tax which was paid to the County in error. The agreement states that \$1,214 will be withheld from the County's sales tax revenues in October 1996, the first month of repayment, and \$1,107 will be withheld in each subsequent month. The monthly withholdings will continue until 2021 when the entire amount of the overpayment has been repaid. The balance due to the State at September 30, 2011, is \$132,840.

D. Other Liabilities

As of September 30, 2011, the County holds \$675,000 on deposit by a third party to cover potential repair expenses in the event of road damages resulting from third party activities. The remaining balance of deposited funds will be refunded to the third party upon completion.

E. Capital Assets

Capital asset activity for the year ended September 30, 2011, is as follows:

	Balance 09/30/10	Additions	Deletions	Adjustments	Balance 09/30/11
Governmental activities					
Capital assets not depreciated:					
Land	\$ 544,383	\$ -	\$ -	\$ -	\$ 544,383
Total capital assets not being depreciated	544,383	-	-	-	544,383
Capital assets being depreciated:					
Buildings	12,324,680	96,228	3,150	(90,300)	12,327,458
Infrastructure	111,448,764	-	-	-	111,448,764
Improvements	2,259,877	29,329	40,000	-	2,249,206
Machinery and other equipment	8,588,590	1,245,674	382,867	(219,984)	9,231,413
Total capital assets being depreciated	134,621,911	1,371,231	426,017	(310,284)	135,256,841
Less: accumulated depreciation:					
Buildings	5,954,383	284,039	3,150	738,320	6,973,592
Infrastructure	109,383,763	145,641	-	-	109,529,404
Improvements	809,147	150,720	6,302	85,899	1,039,464
Machinery and other equipment	5,047,395	947,437	172,646	391,147	6,213,333
Total capital assets being depreciated	121,194,688	1,527,837	182,098	1,215,366	123,755,793
Total depreciable assets, net	13,427,223	(156,606)	243,919	(1,525,650)	11,501,048
Total capital assets	\$ 13,971,606	\$(156,606)	\$ 243,919	\$(1,525,650)	\$ 12,045,431

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

E. Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 134,787
Infrastructure and environmental services	937,569
Public safety	280,051
Justice system	19,709
Corrections and rehabilitation	148,782
Health and human services	<u>6,939</u>
 Total governmental activities depreciation expense	 <u>\$ 1,527,837</u>

F. Interfund Activity

Interfund transfers for the fiscal year ended September 30, 2011, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General	\$ 1,278,907	Road and bridge undivided	Supplement fund sources
General	838,011	Nonmajor funds	Supplement fund sources
Nonmajor funds	<u>209,602</u>	General	Return unrestricted resources
 Total transfers	 <u>\$ 2,326,520</u>		

G. Long-term Liabilities

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2011.

	<u>Balance September 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2011</u>	<u>Amounts Due Within One Year</u>
Certificates of obligation	\$ 1,205,000	\$ -	\$ 590,000	\$ 615,000	\$ 615,000
Notes payable	414,121	707,814	759,660	362,275	114,813
Compensated absences	208,212	221,400	217,372	212,240	201,628
Net OPEB obligation	<u>192,789</u>	<u>256,798</u>	<u>196,167</u>	<u>253,420</u>	<u>-</u>
 Total governmental activities	 <u>\$ 2,020,122</u>	 <u>\$ 1,186,012</u>	 <u>\$ 1,763,199</u>	 <u>\$ 1,442,935</u>	 <u>\$ 931,441</u>

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

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Liabilities (Continued)

Bonds

In 2002, the County issued Certificates of Obligation in the amount of \$4,000,000 to provide funds for acquisition, renovation, and construction of major capital facilities. Interest is payable March 15th and September 15th every year at rates ranging from 2.9% to 4.4%.

Annual debt service requirements to maturity for the certificates of obligation are as follows:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 615,000	\$ 21,524	\$ 636,524
Total	<u>\$ 615,000</u>	<u>\$ 21,524</u>	<u>\$ 636,524</u>

Notes Payable

Notes payable as of September 30, 2011, are composed of the following individual notes:

Financing agreement with the original principal amount of \$125,000; payable annually on August 31st, including principal and interest at 5.00%; final maturity August 31, 2012; secured by Airport Hangar #1 purchased during fiscal year 2010. \$ 35,000

Financing agreement with the original principal amount of \$333,814; payable in monthly installments of \$7,405, including principal and interest at 3.11%; final maturity at August 25, 2015; secured by one Massey Ferguson MF 5455 Tier III 4wd cab tractor, two 2011 Mack Dump Trucks, and two Farmall 95 Tractors. 327,275

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>
2012	\$ 114,813	\$ 10,972	\$ 125,785
2013	82,331	6,529	88,860
2014	84,928	3,932	88,860
2015	<u>80,203</u>	<u>1,253</u>	<u>81,456</u>
Total	<u>\$ 362,275</u>	<u>\$ 22,686</u>	<u>\$ 384,961</u>

III. OTHER INFORMATION

A. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The County provides for the management of risks through insurance coverage. The amount of settlements did not exceed insurance coverage for fiscal year 2011.

B. 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.

C. Pension Plan

Plan Description

The County provides retirement, disability, and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153, or may be accessed online at www.TCDRS.org.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any accounts contributed by their employer.

(continued)

III. OTHER INFORMATION (Continued)

C. Pension Plan (Continued)

Plan Description (Continued)

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

Funding Policy

The employer has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 8.6% for the months of the accounting year in 2010, and 8.6% for the months in the accounting year 2011.

The deposit rate payable by the employee members for calendar year 2011 is the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ended September 30, 2011, the annual pension cost for the TCDRS plan for its employees was \$685,277 and the actual contributions were 685,277. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2009 and December 31, 2010, the basis for determining the contribution rates for calendar years 2010 and 2011. The December 31, 2010 actuarial valuation is the most recent valuation.

(continued)

III. OTHER INFORMATION (Continued)

C. Pension Plan (Continued)

Annual Pension Cost (Continued)

Actuarial Valuation Information

Actuarial valuation date	12/31/08	12/31/09	12/31/10
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period in years	20	17.8	20
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value
Actuarial assumptions:			
Investment return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	5.30%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

¹Includes inflation at the stated rate

**Trend Information for the Retirement Plan
For the Employees of Cherokee County, Texas**

<u>Accounting Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2009	\$ 631,458	100%	\$ -
September 30, 2010	669,950	100%	-
September 30, 2011	685,277	100%	-

**Trend Information for the Retirement Plan
For the Employees of Cherokee County, Texas**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (1) (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2008	\$ 14,120,359	\$ 17,339,282	\$ 3,218,923	81.44%	\$ 7,490,606	42.97%
12/31/2009	14,633,972	17,707,247	3,073,275	82.64%	7,790,855	39.45%
12/31/2010	15,066,781	18,437,437	3,370,656	81.72%	7,896,947	42.68%

(1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

(continued)

III. OTHER INFORMATION (Continued)

D. Other Post-employment Benefits

Program Description

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

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

Funding Policy

The County contributions to the Retiree Health Program consist of a pay-as-you-go monthly contribution rate of \$400 per participant. The County contributions to the plan for fiscal year 2011 were \$196,167. Current retirees contribute to the Retiree Health Program without adjustment for age and sex. Monthly retiree contribution rate for fiscal year 2011 was \$206.62 for health insurance and an additional \$1.35 per month for optional life insurance. Retirees and current employees are financially responsible for monthly premiums in excess of the County's \$400 contribution.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost (expense) for the Retiree Health Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the fiscal year ended September 30, 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

(continued)

III. OTHER INFORMATION (Continued)

D. Other Post-employment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

Annual required contribution (ARC)	\$ 256,160
Interest on net OPEB obligation	8,676
Adjustment to annual required contribution	(8,038)
Annual OPEB cost (expense)	256,798
Contributions made	(196,167)
Change in OPEB obligation	60,631
Net OPEB obligation (asset), beginning	192,789
Net OPEB obligation (asset) ending	\$ 253,420

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, 2011, and the two preceding fiscal years were as follows:

Fiscal Year	Annual OPEB Cost	Employer Amount Contributed	Percentage of APC Contributed	Net OPEB Obligation
2009	\$ 304,813	\$ 208,159	68.3%	\$ 96,654
2010	314,276	218,141	69.4%	192,789
2011	256,798	196,167	76.4%	253,420

Funded Status and Funding Progress

The funded status of the County's retiree health care plan for the two actuarial dates since the implementation of GASB Statement No. 45 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2008	\$ -	\$ 3,191,774	\$ 3,191,774	0%	\$ 7,490,606	42.61%
12/31/2010	-	2,684,922	2,684,922	0%	7,896,947	34.00%

Under the reporting parameters, the County's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$2,684,922 at December 31, 2010.

(continued)

III. OTHER INFORMATION (Continued)

D. Other Post-employment Benefits (Continued)

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the County's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the County and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the County and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial Methods and Assumptions

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the County's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(continued)

III. OTHER INFORMATION (Continued)

E. Change in Accounting Principles and Restatement of Beginning Equity

In the current fiscal year, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the County reclassifying fund balances of its governmental funds.

In prior years the County reported prepaid expenditures for services that were purchased but unused at year end. In accordance with National Council on Governmental Accounting (NCGA) Statement No. 1, "Governmental Accounting and Financial Reporting Principles," the County has opted to no longer report prepaid expenditures.

In prior years the County reported the Adult Probation Fund as a nonmajor governmental fund. In the current year, the County determined that the specifics of the relationship between the County and the local Community Supervision and Corrections Department no longer justified inclusion of the Adult Probation Fund in the primary government. The assets of the Adult Probation Fund held by the County are now included in the Statement of Fiduciary Assets and Liabilities.

In the current year the County determined that certain prior year receivable balances had been overstated. The correction of this error decreased both the beginning fund balance of the General Fund and the beginning net assets of Governmental Activities by \$204,035. A summary of direct adjustments to fund balance is as follows:

	General	Road and Bridge	Other Major Funds Previously Reported	Other Governmental	Total Governmental Funds
Beginning fund balance, as previously reported	\$ 4,848,500	\$ 133,486	\$ 484,897	\$ 3,050,666	\$ 8,517,549
Change in accounting principle - GASB 54	85,202	1,335,302	(484,897)	(935,607)	-
Other change in accounting principle	(174,703)	(45,302)	-	(16,505)	(236,510)
Removal of a nonmajor fund	-	-	-	(28,677)	(28,677)
Correction of an error	(204,035)	-	-	-	(204,035)
Beginning fund balance, as restated	<u>\$ 4,554,964</u>	<u>\$ 1,423,486</u>	<u>\$ -</u>	<u>\$ 2,069,877</u>	<u>\$ 8,048,327</u>

In the current year the County took steps to improve its accounting for and reporting of capital assets. In doing so, the County determined that the prior year balance of accumulated depreciation was understated by \$1,215,366. The County also determined that capital assets amounting to \$310,284 were improperly included in the prior year balance. The correction of these errors, considered together with the adjustments to governmental fund balance described above, resulted in the restatement of beginning net assets from \$21,609,219 to \$19,614,347.

**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, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 7,518,000	\$ 7,518,000	\$ 7,750,993	\$ 232,993
Sales	1,307,000	1,307,000	1,559,810	252,810
Mixed beverage	22,000	22,000	25,310	3,310
Fees of office	832,800	832,800	1,078,729	245,929
Intergovernmental	215,330	215,330	295,550	80,220
Fines and forfeitures	643,110	643,110	689,859	46,749
Interest	17,988	17,988	11,097	(6,891)
Miscellaneous	4,600	4,600	212,395	207,795
Total revenues	<u>10,560,828</u>	<u>10,560,828</u>	<u>11,623,743</u>	<u>1,062,915</u>
EXPENDITURES				
Auditor's office	249,191	249,191	239,134	10,057
Information technology	89,919	89,919	89,457	462
County service officer	92,444	92,444	82,204	10,240
Human resources	75,168	75,168	38,441	36,727
Maintenance - courthouse and annex	361,540	361,540	317,993	43,547
Agricultural department	170,582	170,582	170,199	383
Tax assessor-collector	587,798	587,798	537,229	50,569
District clerk	285,010	285,010	244,610	40,400
County clerk	644,553	644,553	646,746	(2,193)
Child support	77,564	77,564	62,798	14,766
County treasurer	159,755	159,755	154,709	5,046
Sheriff	2,396,613	2,396,613	2,366,373	30,240
Jail	2,082,744	2,082,744	1,859,688	223,056
Drug task officer	68,154	68,154	49,117	19,037
County judge	179,170	179,170	170,880	8,290
County attorney	336,274	336,274	322,212	14,062
District attorney	402,102	402,102	361,483	40,619
Justices of the peace	501,257	501,257	509,355	(8,098)
Constables	259,344	259,344	252,408	6,936
2nd judicial district court	307,486	307,486	335,781	(28,295)
Court administrator 2nd court	120,988	120,988	122,563	(1,575)
369th district court	140,856	140,856	110,583	30,273
County court-at-law	576,328	576,328	574,333	1,995
Law library	29,866	29,866	28,644	1,222
Other departmental	1,641,934	1,641,934	1,531,589	110,345
Juvenile probation - general fund	92,200	92,200	86,650	5,550

(continued)

CHEROKEE COUNTY, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

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

GENERAL FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
EXPENDITURES (Continued)				
Emergency management	\$ 64,594	\$ 64,594	\$ 34,093	\$ 30,501
DARE program	53,840	53,840	52,523	1,317
Records management	31,000	31,000	23,612	7,388
Mental health advocate	83,605	83,605	97,216	(13,611)
Adult probation - general fund	22,400	22,400	17,267	5,133
Rural addressing	23,000	23,000	23,000	-
Department of public safety	15,225	15,225	13,614	1,611
Solid waste	113,608	113,608	99,892	13,716
Historical commission	14,520	14,520	10,123	4,397
Debt service	-	-	47,739	(47,739)
Total expenditures	<u>12,350,632</u>	<u>12,350,632</u>	<u>11,684,258</u>	<u>666,374</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,789,804)</u>	<u>(1,789,804)</u>	<u>(60,515)</u>	<u>1,729,289</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	209,602	209,602
Transfers out	(2,183,651)	(2,183,651)	(2,116,918)	66,733
Proceeds from sale of assets	-	-	27,092	27,092
Proceeds from insurance	-	-	2,157	2,157
Total other financing sources (uses)	<u>(2,183,651)</u>	<u>(2,183,651)</u>	<u>(1,878,067)</u>	<u>305,584</u>
NET CHANGE IN FUND BALANCES	<u>(3,973,455)</u>	<u>(3,973,455)</u>	<u>(1,938,582)</u>	2,034,873
FUND BALANCES, BEGINNING, RESTATED	<u>4,554,964</u>	<u>4,554,964</u>	<u>4,554,964</u>	-
FUND BALANCES, ENDING	<u>\$ 581,509</u>	<u>\$ 581,509</u>	<u>\$ 2,616,382</u>	<u>\$ 2,034,873</u>

CHEROKEE COUNTY, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

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

ROAD AND BRIDGE

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,360,380	\$ 3,360,380	\$ 3,406,549	\$ 46,169
Fees of office	798,000	798,000	827,749	29,749
Intergovernmental	45,000	45,000	94,189	49,189
Interest	2,880	2,880	5,236	2,356
Miscellaneous	-	-	77,677	77,677
Total revenues	4,206,260	4,206,260	4,411,400	205,140
EXPENDITURES				
General government	527,450	527,450	484,282	43,168
Infrastructure and environmental services	4,195,717	4,335,500	4,696,170	(360,670)
Capital outlay	762,000	762,000	922,257	(160,257)
Debt service:				
Principal	-	-	339,991	339,991
Interest	-	-	20,612	20,612
Total expenditures	5,485,167	5,624,950	6,463,312	(117,156)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,278,907)	(1,418,690)	(2,051,912)	(633,222)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,278,907	1,278,907	1,278,907	-
Proceeds from sale of assets	-	-	744	744
Proceeds from insurance	-	-	29,840	29,840
Proceeds from debt issuance	-	-	374,000	374,000
Proceeds from refinancing of debt	-	-	333,814	333,814
Payment for refinancing	-	-	(328,350)	(328,350)
Total other financing sources (uses)	1,278,907	1,278,907	1,688,955	410,048
NET CHANGE IN FUND BALANCES	-	(139,783)	(362,957)	(223,174)
FUND BALANCES, BEGINNING, RESTATED	1,423,486	1,423,486	1,423,486	-
FUND BALANCES, ENDING	\$ 1,423,486	\$ 1,283,703	\$ 1,060,529	\$(223,174)

**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
ASSETS					
Cash and cash equivalents	\$ 56,300	\$ 45,326	\$ 52,671	\$ 3,223	\$ 120,674
Investments	44,813	34,167	2,128	-	307,810
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	-
Due from other governments	<u>104,088</u>	<u>-</u>	<u>88,840</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 205,201</u>	<u>\$ 79,493</u>	<u>\$ 143,639</u>	<u>\$ 3,223</u>	<u>\$ 428,484</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 15,892	\$ 17,843	\$ 668	\$ -	\$ 24,827
Deferred revenue	<u>-</u>	<u>-</u>	<u>1,829</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>15,892</u>	<u>17,843</u>	<u>2,497</u>	<u>-</u>	<u>24,827</u>
Fund balances:					
Restricted for:					
General government	-	-	16,223	-	-
Justice system	-	-	110,310	-	-
Public safety	-	-	13,586	3,223	403,657
Health and human services	189,309	-	-	-	-
Community and economic development	-	-	1,023	-	-
Infrastructure and environmental services	-	61,650	-	-	-
Debt service	-	-	-	-	-
Assigned for capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>189,309</u>	<u>61,650</u>	<u>141,142</u>	<u>3,223</u>	<u>403,657</u>
Total liabilities and fund balances	<u>\$ 205,201</u>	<u>\$ 79,493</u>	<u>\$ 143,639</u>	<u>\$ 3,223</u>	<u>\$ 428,484</u>

Special Revenue

Indigent Health Care	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 15,479	\$ 50,386	\$ 53,970	\$ 24,525	\$ 100	\$ 1,154	\$ 74,536	\$ 498,344
556,549	-	-	-	-	54,741	223,338	1,223,546
12,588	-	-	-	-	89,868	-	102,456
-	-	-	-	223,588	-	-	416,516
<u>\$ 584,616</u>	<u>\$ 50,386</u>	<u>\$ 53,970</u>	<u>\$ 24,525</u>	<u>\$ 223,688</u>	<u>\$ 145,763</u>	<u>\$ 297,874</u>	<u>\$ 2,240,862</u>
\$ 2,136	\$ -	\$ -	\$ -	\$ 223,588	\$ 269	\$ 48,099	\$ 333,322
10,540	-	-	-	-	84,617	-	96,986
<u>12,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>223,588</u>	<u>84,886</u>	<u>48,099</u>	<u>430,308</u>
-	-	-	-	-	-	-	16,223
-	50,386	-	-	-	-	-	160,696
-	-	53,970	24,525	-	-	-	498,961
571,940	-	-	-	-	-	-	761,249
-	-	-	-	100	-	-	1,123
-	-	-	-	-	-	-	61,650
-	-	-	-	-	60,877	-	60,877
-	-	-	-	-	-	249,775	249,775
<u>571,940</u>	<u>50,386</u>	<u>53,970</u>	<u>24,525</u>	<u>100</u>	<u>60,877</u>	<u>249,775</u>	<u>1,810,554</u>
<u>\$ 584,616</u>	<u>\$ 50,386</u>	<u>\$ 53,970</u>	<u>\$ 24,525</u>	<u>\$ 223,688</u>	<u>\$ 145,763</u>	<u>\$ 297,874</u>	<u>\$ 2,240,862</u>

CHEROKEE COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
REVENUES					
Taxes:					
Property	\$ -	\$ -	\$ -	\$ -	\$ -
Fees of office	173,644	285,539	68,571	-	-
Intergovernmental	776,518	8,191	114,678	7,719	499,658
Fines and forfeitures	-	-	-	-	15,548
Interest	253	99	4	9	617
Miscellaneous	10,982	50	-	-	627
Total revenues	<u>961,397</u>	<u>293,879</u>	<u>183,253</u>	<u>7,728</u>	<u>516,450</u>
EXPENDITURES					
Current:					
General government	-	-	3,868	-	-
Justice system	-	-	6,456	-	-
Public safety	-	-	44,739	11,281	768,519
Corrections and rehabilitation	-	-	8,323	-	-
Health and human services	1,223,491	-	-	-	-
Infrastructure and environmental services	-	383,194	75,390	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	45,000	-	-	-
Interest	-	4,950	-	-	-
Total expenditures	<u>1,223,491</u>	<u>433,144</u>	<u>138,776</u>	<u>11,281</u>	<u>768,519</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(262,094)</u>	<u>(139,265)</u>	<u>44,477</u>	<u>(3,553)</u>	<u>(252,069)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	300,701	166,440	78,267	-	243,033
Transfers out	-	-	(209,602)	-	-
Proceeds from sale of assets	-	5,000	-	-	-
Proceeds from insurance	-	-	-	-	-
Total other financing sources and uses	<u>300,701</u>	<u>171,440</u>	<u>(131,335)</u>	<u>-</u>	<u>243,033</u>
NET CHANGE IN FUND BALANCES	38,607	32,175	(86,858)	(3,553)	(9,036)
FUND BALANCES, BEGINNING, RESTATED	<u>150,702</u>	<u>29,475</u>	<u>228,000</u>	<u>6,776</u>	<u>412,693</u>
FUND BALANCES, ENDING	<u>\$ 189,309</u>	<u>\$ 61,650</u>	<u>\$ 141,142</u>	<u>\$ 3,223</u>	<u>\$ 403,657</u>

Special Revenue

Indigent Health Care	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 584,178	\$ -	\$ 584,178
-	-	-	-	-	-	-	527,754
-	-	-	-	621,620	-	-	2,028,384
-	4,443	14,679	43	-	-	-	34,713
1,184	-	-	-	-	802	550	3,518
-	-	-	-	-	-	-	11,659
<u>1,184</u>	<u>4,443</u>	<u>14,679</u>	<u>43</u>	<u>621,620</u>	<u>584,980</u>	<u>550</u>	<u>3,190,206</u>
-	-	-	-	-	-	-	3,868
-	4,068	-	-	-	-	-	10,524
-	-	3,201	1,398	621,620	537	-	1,451,295
-	-	-	-	-	-	-	8,323
143,479	-	-	-	-	-	-	1,366,970
-	-	-	-	-	-	-	458,584
-	-	-	-	-	-	139,100	139,100
-	-	-	-	-	590,000	-	635,000
-	-	-	-	-	41,585	-	46,535
<u>143,479</u>	<u>4,068</u>	<u>3,201</u>	<u>1,398</u>	<u>621,620</u>	<u>632,122</u>	<u>139,100</u>	<u>4,120,199</u>
(142,295)	375	11,478	(1,355)	-	(47,142)	(138,550)	(929,993)
-	-	-	-	-	-	49,570	838,011
-	-	-	-	-	-	-	(209,602)
-	-	-	-	-	-	-	5,000
-	-	-	-	-	-	37,261	37,261
-	-	-	-	-	-	86,831	670,670
(142,295)	375	11,478	(1,355)	-	(47,142)	(51,719)	(259,323)
<u>714,235</u>	<u>50,011</u>	<u>42,492</u>	<u>25,880</u>	<u>100</u>	<u>108,019</u>	<u>301,494</u>	<u>2,069,877</u>
<u>\$ 571,940</u>	<u>\$ 50,386</u>	<u>\$ 53,970</u>	<u>\$ 24,525</u>	<u>\$ 100</u>	<u>\$ 60,877</u>	<u>\$ 249,775</u>	<u>\$ 1,810,554</u>

SINGLE AUDIT SECTION

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas as of and for the year ended September 30, 2011, and have issued our report thereon dated May 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2011-1, 2011-2).

Compliance and Other Matters

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

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

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

Saville, Brown & Hill, LLP

May 11, 2012

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

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

Compliance

We have audited Cherokee County, Texas' compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Cherokee County, Texas' major federal programs for the year ended September 30, 2011. Cherokee County, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cherokee County's management. Our responsibility is to express an opinion on Cherokee County, Texas' compliance based on our audit.

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

In our opinion, Cherokee County, Texas, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

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

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

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

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

Patillo, Brown & Hill, LLP

May 11, 2012

CHEROKEE COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through the Texas Department of Rural Affairs:			
Community Development Block Grant	14.228	727016	\$ 1,775
Community Development Block Grant - Hurricane Ike	14.228	DRS010025	<u>710,029</u>
Total Passed through the Texas Department of Rural Affairs			<u>711,804</u>
Passed through the General Land Office			
Community Development Block Grant - Hurricane Ike	14.228	DRS010025	<u>13,009</u>
Total Passed through the General Land Office			<u>13,009</u>
Total U. S. Department of Housing and Urban Development			<u>724,813</u>
<u>U. S. DEPARTMENT OF JUSTICE</u>			
Direct Program:			
State Criminal Alien Assistance Program	16.606	2010-AP-BX-0668	<u>9,505</u>
Total Direct Program			<u>9,505</u>
Passed through the Governor's Office, Criminal Justice Division:			
Justice Assistance Grant Program - Local Solicitation	16.738	2009-DJ-BX-0853	<u>545</u>
Total Passed through the Governor's Office, Criminal Justice Division			<u>545</u>
Total U. S. Department of Justice			<u>10,050</u>
<u>U. S. DEPARTMENT OF TRANSPORTATION</u>			
Passed through Texas Department of Transportation:			
Airport Improvement Project - Engineering Services	20.106	0910JCKSN	12,086
Airport Improvement Project	20.106	1110JCKSN	<u>6,424</u>
Total Passed through Texas Department of Transportation			<u>18,510</u>
Total U. S. Department of Transportation			<u>18,510</u>
<u>U. S. DEPARTMENT OF ENERGY</u>			
Passed through State Energy Conservation Office:			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	3689MM	<u>75,390</u>
Total Passed through State Energy Conservation Office			<u>75,390</u>
Total U. S. Department of Energy			<u>75,390</u>
<u>U. S. ELECTION ASSISTANCE COMMISSION</u>			
Passed through Texas Secretary of State:			
HAVA - General HAVA Compliance	90.401	78512	<u>1,165</u>
Total Passed through Texas Secretary of State			<u>1,165</u>
Total U. S. Election Assistance Commission			<u>1,165</u>

(continued)

CHEROKEE COUNTY, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through the Texas Department of State Health Services:			
Bioterrorism Preparedness	93.069	2010-035372	\$ 59,986
Bioterrorism Preparedness	93.069	2011-038799	12,089
H1N1 / PHER	93.069	2011-037520	94,858
Title X	93.217	2011-037028	8,868
Immunization	93.268	2011-035922	42,571
Immunization	93.268	2012-039520	10,889
Breast and Cervical Cancer Services	93.283	2008-028595	212
Breast and Cervical Cancer Services	93.283	2010-035670	58,885
Breast and Cervical Cancer Services	93.283	2011-038364	15,167
Title XX - CHS	93.667	2011-036785	39,137
Title XX - CHS	93.667	2012-039853	2,242
RLSS/LPHS	93.991	2011-035570	28,561
Total Passed through the Texas Department of State Health Services			<u>373,465</u>
Passed through the Texas Department of Family and Protective Services:			
Title IV-E Legal Services	93.658	23379897	1,594
Total Passed through the Texas Department of Family and Protective Services:			<u>1,594</u>
Total U. S. Department of Health and Human Services			<u>375,059</u>
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through Texas Department of Public Safety:			
Disaster Relief - Public Assistance Grant	97.036	FEMA-4029-DRTX	132,363
Homeland Security Grant Program	97.073	2008-GE-T8-0034	3,471
Homeland Security Grant Program	97.073	2009-SS-T9-0064	16,862
Total Passed through Texas Department of Public Safety			<u>152,696</u>
Total U. S. Department of Homeland Security			<u>152,696</u>
TOTAL FEDERAL EXPENDITURES			\$ <u>1,357,683</u>

CHEROKEE COUNTY, TEXAS

**NOTE TO SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS**

YEAR ENDED SEPTEMBER 30, 2011

BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the basic financial statements.

CHEROKEE COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? None

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal/State Program or Cluster:
14.228	Community Development Block Grant

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

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

(continued)

CHEROKEE COUNTY, TEXAS
SUMMARY SCHEDULE OF AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

Item 2011-1: **Capital Asset Records**

Condition: During our testing of capital assets, we noted the County is not properly maintaining their capital asset listing. Specifically, when the purchase of a new asset includes the trade-in of an existing asset, the trade-in value is not included in the amount added to the capital asset subledger for the new asset, and the entire historical cost of the traded asset is removed from the subledger.

Criteria: The trade-in value of a disposed asset should be included as part of the historical cost of the asset acquired through that trade-in.

Cause: Internal controls are currently inadequate to ensure that this listing is accurate and complete.

Effect: The balance of capital assets was misstated, and as a result, a material audit adjustment was necessary.

Recommendation: Because of their frequency, the County should establish a written policy for the proper accounting of capital asset transactions involving trade-ins of existing assets.

Management's Response: The County agrees that capital asset transactions involving trade-ins of existing assets should be accounted for as described above. The County will establish procedures to ensure their proper recording in the capital asset subledger.

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

Anticipated Completion
Date: September 30, 2012

(continued)

CHEROKEE COUNTY, TEXAS

SUMMARY SCHEDULE OF AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards (Continued)**

Item 2011-2: Netting of Revenues and Other Financing Sources with Expenditures

Condition: We noted several instances in which the County receipted revenues and other financing sources to related expenditure accounts. Specific transactions noted were: the proceeds from insurance being netted with the expenditure for replacing the insured item; the proceeds from the sale of capital assets and debt issuance being receipted to capital outlay accounts; reimbursements for industrial road damage being receipted to road maintenance expenditure accounts.

Criteria: Under the current financial resources measurement focus, the operating statement of a governmental fund should include all transactions or events of the period that have increased or decreased the resources available for spending in the near future.

Cause: There are no policies in place to define the rare instances in which a cash receipt should be recorded to an expenditure account.

Effect: The understatement of revenues, expenditures, and other financing sources resulted in material audit adjustments.

Recommendation: We recommend that the County establish a policy to only credit cash receipts to expenditure accounts in the following instances: when a vendor returns an overpayment in the same fiscal year that the vendor was initially overpaid; when reimbursement is received for a cash disbursement that was charged to an expenditure account, and the initial cash disbursement in no way contributed to County programs or services, and the County had no responsibility for ensuring the proper use of the funds, and the transactions have a zero net change in fund balance.

Management's Response: The County agrees with the above recommendation and has begun evaluating the nature of the receipts that are typically credited to expenditures.

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

Anticipated Completion
Date: September 30, 2012

Findings and Questioned Costs for Federal Awards

None

CHEROKEE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Item 2010-3:</u>	All major programs
<u>Compliance Requirement:</u>	Suspension and debarment
<u>Condition:</u>	This finding was a material weakness stating that no controls were in place to prevent the County from contracting with or making subawards to parties that are suspended or debarred.
<u>Recommendation:</u>	The auditor recommended that the County implement a policy to verify that each entity it contracts with or makes subawards to is not suspended or debarred or otherwise excluded. It was recommended that the County utilize the Excluded Parties List System (EPLS), collect a certification from the entity, or add a clause or condition to the covered transaction with that entity.
<u>Current Status:</u>	This matter has been resolved.
<u>Item 2010-4:</u>	Immunization, RLSS/LPHS, Bioterrorism, Breast and Cervical Cancer Services
<u>Condition:</u>	This finding was a material weakness stating that no controls were in place to ensure the proper distribution of employee salaries across federal award programs and non-federal award programs.
<u>Recommendation:</u>	The auditor recommended that procedures be implemented to ensure that employees certify a personnel activity report that would provide adequate documentation of the employee's actual activity.
<u>Current Status:</u>	Due to the nature of the affected programs, the County found it difficult to establish procedures to efficiently account for the time spent on the various activities performed by each employee throughout the day. The County has recently hired a new Director for the department overseeing these programs. The Director is familiar with the aforementioned difficulty and is currently investigating possible solutions.