

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2016

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CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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INTRODUCTORY SECTION

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CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2016

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Patrick Reagan

Byron Underwood

COUNTY AUDITOR

L. H. Crockett

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County, Texas, as of September 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Uniform Guidance and the *State of Texas Uniform Grant Management Standards*, issued by the Governor's Office of Budget and Planning, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Parillo, Brown & Hill, LLP

Waco, Texas
June 29, 2017

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cherokee County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Cherokee County, Texas, for the fiscal year ended September 30, 2016. This analysis should be read in conjunction with the financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Cherokee County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$14,341,214 (net position). Of this amount, \$5,428,918 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position (government-wide) decreased by \$616,935.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$4,679,079, a decrease of \$543,098 in comparison with the prior year. Approximately 93% of this total amount, \$4,358,944, is *available for spending* at the County's discretion (unassigned and assigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,856,515 or 14% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) increased by \$1,942,575 (69%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets and deferred outflows exceeded liabilities and deferred inflows by \$14,341,214 as of September 30, 2016.

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

CHEROKEE COUNTY NET POSITION

	Governmental Activities	
	2016	2015
Current and other assets	\$ 9,366,308	\$ 9,008,236
Capital assets	9,128,639	9,902,321
Total assets	<u>18,494,947</u>	<u>18,910,557</u>
Deferred outflows - pensions	2,980,662	964,115
Total deferred outflows of resources	<u>2,980,662</u>	<u>964,115</u>
Long-term liabilities	4,767,625	2,825,050
Other liabilities	2,075,767	2,042,619
Total liabilities	<u>6,843,392</u>	<u>4,867,669</u>
Deferred inflows - pensions	291,003	69,031
Total deferred inflows of resources	<u>291,003</u>	<u>69,031</u>
Net position:		
Net investment in capital assets	8,592,161	9,522,926
Restricted	320,135	1,113,920
Unrestricted	5,428,918	4,301,126
Total net position	<u>\$ 14,341,214</u>	<u>\$ 14,937,972</u>

Governmental Activities. Governmental activities decreased Cherokee County's net position by \$616,935. A key element of this decrease in net position was a \$1,947,982 or 9% decrease in fiscal year 2016 expenses and a \$2,485,161 decrease in fiscal year 2016 revenues as compared to fiscal year 2015.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 3,432,291	\$ 3,517,931
Operating grants and contributions	2,564,904	2,075,911
General revenues:		
Property taxes	14,224,104	12,853,644
Sales and other taxes	1,776,773	1,759,674
Gain on disposal of capital assets	35,553	111,816
Investment income	49,596	51,604
Miscellaneous	288,580	53,239
Total revenues	22,371,801	20,423,819
EXPENSES		
General government	5,113,406	5,030,050
Justice system	3,584,746	3,401,841
Public safety	2,907,055	3,089,816
Corrections and rehabilitation	2,468,527	2,282,882
Health and human services	1,671,662	1,792,774
Community and economic development	190,260	140,028
Infrastructure and environmental	7,040,418	6,200,010
Interest and fiscal charges	12,662	10,402
Total expenses	22,988,736	21,947,803
DECREASE IN NET POSITION	(616,935)	(1,523,984)
NET POSITION, BEGINNING, RESTATED	14,958,149	16,461,956
NET POSITION, ENDING	\$ 14,341,214	\$ 14,937,972

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 \$4,679,079 which is a decrease of \$543,098 from last year's total of \$5,222,177.

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,856,515. 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 14% of the total General Fund expenditures. Additionally, revenues increased primarily a result increases in property tax revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$695,421. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,217,062 less than final budgeted appropriations.

CAPITAL ASSETS

Cherokee County's investment in capital assets for its governmental activities as of September 30, 2016, amounts to \$8,592,161 (net of accumulated depreciation), a decrease of \$930,765 from the prior year. This investment in capital assets includes land, buildings, vehicles, furniture and equipment.

CHEROKEE COUNTY CAPITAL ASSETS

	Capital Assets	
	2016	2015
Land	\$ 544,383	\$ 544,383
Buildings	12,481,033	12,516,033
Infrastructure	111,448,764	111,448,764
Improvements	2,627,726	2,627,726
Machinery and other equipment	11,405,399	11,044,789
Less: accumulated depreciation	(129,378,666)	(128,279,374)
Total capital assets, net of accumulated depreciation	\$ <u>9,128,639</u>	\$ <u>9,902,321</u>

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

LONG-TERM DEBT

At September 30, 2016, the County had outstanding notes payable of \$536,478 which \$230,951 was issued in the current year. Principal payments of \$73,868 were made on notes payable in the current year, and interest expense on notes payable for the year was \$12,662. 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>2016</u>	<u>2015</u>
Notes payable	\$ 536,478	\$ 379,395
Compensated absences	268,188	247,243
Net pension liability	3,483,928	1,775,901
Other post employment benefits	<u>479,031</u>	<u>422,511</u>
Total outstanding debt	<u>\$ 4,767,625</u>	<u>\$ 2,825,050</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2017, saw no increase from the prior year, and remained at .5950 per \$100 valuation.
- Continued increases in the property values in Cherokee County are expected to provide an additional \$565,209 of property tax revenue as compared to the fiscal year ended September 30, 2016.

REQUESTS FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

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CHEROKEE COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2016

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 773,572
Investments	5,593,691
Receivables, net of allowance	2,766,912
Due from other governments	232,133
Capital assets, net:	
Land	544,383
Buildings and improvements	12,481,033
Infrastructure	111,448,764
Improvements other than buildings	2,627,726
Equipment	11,405,399
Less: accumulated depreciation	(129,378,666)
Total capital assets	9,128,639
Total assets	18,494,947
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	2,980,662
Total deferred outflows of resources	2,980,662
 LIABILITIES	
Accounts payable	517,227
Accrued liabilities	375,563
Due to others	1,116,557
Unearned revenue	66,420
Noncurrent liabilities:	
Due within one year	154,274
Due in more than one year	4,613,351
Total liabilities	6,843,392
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	291,003
Total deferred inflows of resources	291,003
 NET POSITION	
Net investment in capital assets	8,592,161
Restricted	320,135
Unrestricted	5,428,918
Total net position	\$ 14,341,214

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

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CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses for Services	Program Revenues		Net (Expense) Revenue and Change in Primary Government Net Position
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government				
Governmental activities:				
General government	\$ 5,113,406	\$ 1,147,783	\$ 13,302	\$(3,952,321)
Justice system	3,584,746	937,035	894,992	(1,752,719)
Public safety	2,907,055	194,651	47,239	(2,665,165)
Corrections and rehabilitation	2,468,527	140,554	257	(2,327,716)
Health and human services	1,671,662	153,319	854,446	(663,897)
Community and economic development	190,260	-	-	(190,260)
Infrastructure and environmental services	7,040,418	858,949	754,668	(5,426,801)
Interest and fiscal charges	12,662	-	-	(12,662)
Total governmental activities	<u>22,988,736</u>	<u>3,432,291</u>	<u>2,564,904</u>	<u>(16,991,541)</u>
Total primary government	<u>\$ 22,988,736</u>	<u>\$ 3,432,291</u>	<u>\$ 2,564,904</u>	<u>(16,991,541)</u>
General revenues				
Taxes:				
				10,086,560
				4,129,516
				8,028
				1,760,855
				15,918
				35,553
				49,596
				288,580
				<u>16,374,606</u>
				(616,935)
				<u>14,958,149</u>
				<u>\$ 14,341,214</u>

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

CHEROKEE COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 100	\$ -	\$ 773,472	\$ 773,572
Investments	3,456,772	1,550,226	586,693	5,593,691
Due from other funds	-	1,062,903	226,469	1,289,372
Receivables (net of allowance for uncollectibles)				
Taxes	1,838,442	598,602	21,061	2,458,105
Accounts	308,807	-	-	308,807
Due from other governments	20,294	96,969	114,870	232,133
Total assets	5,624,415	3,308,700	1,722,565	10,655,680
LIABILITIES				
Accounts payable	312,782	173,666	30,779	517,227
Accrued liabilities	268,836	62,745	43,982	375,563
Due to other funds	1,225,310	-	64,062	1,289,372
Due to others	76,557	1,040,000	-	1,116,557
Unearned revenues	66,420	-	-	66,420
Total liabilities	1,949,905	1,276,411	138,823	3,365,139
DEFERRED INFLOWS OF RESOURCES				
Unavailable - property taxes	1,509,188	582,877	18,764	2,110,829
Unavailable - court fines and fees	308,807	-	-	308,807
Unavailable - grants	-	191,826	-	191,826
Total deferred inflows of resources	1,817,995	774,703	18,764	2,611,462
FUND BALANCES				
Restricted for:				
Justice system	-	-	178,472	178,472
Public safety	-	-	54,643	54,643
Corrections and rehabilitation	-	-	28,180	28,180
Debt service	-	-	58,840	58,840
Assigned for:				
Health and human services	-	-	132,404	132,404
Infrastructure and environmental services	-	1,257,586	1,027,629	2,285,215
Capital projects	-	-	97,710	97,710
Unassigned	1,856,515	-	(12,900)	1,843,615
Total fund balances	1,856,515	1,257,586	1,564,978	4,679,079
Total liabilities, deferred inflows and fund balance	\$ 5,624,415	\$ 3,308,700	\$ 1,722,565	\$ 10,655,680

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

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2016

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

Total fund balance - governmental funds	\$ 4,679,079
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,128,639
Some of the County's assets are not available to pay for current period expenditures and, therefore, are deferred as unavailable revenue in the funds.	2,611,462
The net pension liability and net other post employment benefits obligation reported in the governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(850,789)
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	(<u>1,227,177</u>)
Net position of governmental activities	\$ <u>14,341,214</u>

CHEROKEE COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 9,603,513	\$ 3,942,895	\$ 2,021	\$ 13,548,429
Sales	1,760,855	-	-	1,760,855
Mixed beverage	15,918	-	-	15,918
Fees of office	917,430	913,809	889,403	2,720,642
Intergovernmental	323,648	564,232	1,490,231	2,378,111
Fines and forfeitures	629,020	-	64,893	693,913
Interest	34,294	12,829	2,473	49,596
Miscellaneous	167,627	120,577	6,467	294,671
Total revenues	<u>13,452,305</u>	<u>5,554,342</u>	<u>2,455,488</u>	<u>21,462,135</u>
EXPENDITURES				
Current:				
General government	4,381,353	508,447	81,027	4,970,827
Justice system	2,571,952	-	1,008,117	3,580,069
Public safety	2,925,367	-	31,082	2,956,449
Corrections and rehabilitation	2,229,141	-	90,006	2,319,147
Health and human services	275,416	-	1,387,430	1,662,846
Community and economic development	188,023	-	-	188,023
Infrastructure and environmental services	208,474	5,561,761	408,347	6,178,582
Capital outlay	202,243	438,348	34,597	675,188
Debt service:				
Principal	15,426	58,442	-	73,868
Interest	1,331	11,331	-	12,662
Total expenditures	<u>12,998,726</u>	<u>6,578,329</u>	<u>3,040,606</u>	<u>22,617,661</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>453,579</u>	<u>(1,023,987)</u>	<u>(585,118)</u>	<u>(1,155,526)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	16,878	224,494	704,643	946,015
Transfers out	(929,137)	-	(16,878)	(946,015)
Proceeds from issuance of debt	-	230,951	-	230,951
Proceeds from sale of assets	24,830	73,242	-	98,072
Proceeds from insurance	66,494	216,911	-	283,405
Total other financing sources (uses)	<u>(820,935)</u>	<u>745,598</u>	<u>687,765</u>	<u>612,428</u>
NET CHANGE IN FUND BALANCES	<u>(367,356)</u>	<u>(278,389)</u>	<u>102,647</u>	<u>(543,098)</u>
FUND BALANCES, BEGINNING	<u>2,223,871</u>	<u>1,535,975</u>	<u>1,462,331</u>	<u>5,222,177</u>
FUND BALANCES, ENDING	<u>\$ 1,856,515</u>	<u>\$ 1,257,586</u>	<u>\$ 1,564,978</u>	<u>\$ 4,679,079</u>

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

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Net change in fund balance - governmental funds	\$(543,098)
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.	(773,682)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	868,022
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.	(230,951)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	53,691
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>9,083</u>
Change in net position of governmental activities	<u>\$(616,935)</u>

CHEROKEE COUNTY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>2,095,189</u>
Total assets	<u>2,095,189</u>
LIABILITIES	
Due to others	<u>2,095,189</u>
Total liabilities	<u>\$ 2,095,189</u>

CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of the Government-wide Financial Statements

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

B. Reporting Entity

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

In determining the financial reporting entity, Cherokee County, Texas complies with the provisions of GASB Statement No. 14, The Financial Reporting Entity. Under this standard, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

C. Basis of Presentation – Government-wide Financial Statements

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

D. Basis of Presentation – Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

The County also reports fiduciary funds:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

F. Budgetary Information

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

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

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

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

G. Cash and Investments

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

Investments for the County are reported at fair value, except for the position in investment pools. The County's investment in pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. 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 will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investment income is recognized as revenue in the appropriate fund's statement of activity and/or statement of revenues, expenditures, and changes in fund balance.

H. Capital Assets

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

I. Deferred Outflows/Inflows of Resources

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has the following items that qualify for reporting in this category:

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

J. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the County's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Commissioners Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners Court.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

K. Fund Balance Flow Assumption

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

L. Net Position Flow Assumption

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

M. Program Revenues

Amounts reported as program revenues in the government-wide financial statements include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those collected for specific purposes, are reported as general revenues rather than as program revenues.

N. Compensated Absences

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

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

O. Property Taxes

Ad valorem taxes are levied October 1 of each year and are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes become delinquent on February 1 following the year in which levied. Taxes on real property attach as an enforceable lien on January 1 of the year in which levied and are a lien against such property until paid. The combined tax rate for the year ended September 30, 2016, was \$.5900 per \$100 and was allocated as follows:

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

P. Pensions

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

Q. Estimates

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Fund Equity

At September 30, 2016, the State Hospital/MHMR fund, a nonmajor fund, has a deficit fund balance of \$12,900. If in the next year funds do not become available to cover the deficit, the County will transfer funds from the general fund.

III. DETAILED NOTES ON ALL FUNDS

A. Cash Deposits with Financial Institutions

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations, those of its agencies and instrumentalities, or direct obligations of Texas or its agencies instrumentalities that have a fair value of not less than the principal amount of deposits. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. As of September 30, 2016, the carrying value of the County’s deposit balance was fully collateralized with securities held by the pledging financial institution in the County’s name or by FDIC insurance.

B. Investments

The County invests in local government investment pools and reports these items as cash equivalents. As of September 30, 2016, the County had the following investments:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (days)</u>	<u>S&P Rating</u>
TexStar	\$ 30,747	43	AAAm

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

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

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

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

C. Receivables and Allowance for Uncollectible Accounts

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Taxes receivable:				
Property tax	\$ 1,915,273	\$ 741,353	\$ 21,838	\$ 2,678,464
Sales tax	287,333	-	-	287,333
Mixed beverage tax	4,631	-	-	4,631
Court fines receivable	5,001,510	-	-	5,001,510
Less: allowance for uncollectibles	(5,061,498)	(142,751)	(777)	(5,205,026)
Net accounts receivable	<u>\$ 2,147,249</u>	<u>\$ 598,602</u>	<u>\$ 21,061</u>	<u>\$ 2,766,912</u>

D. Unearned Sales Tax Revenue

In October of 1996, the County entered into an agreement with the State Comptroller to repay \$332,207 of local sales tax which was paid to the County in error. The agreement states that \$1,214 will be withheld from the County's sales tax revenues in October 1996, the first month of repayment, and \$1,107 will be withheld in each subsequent month until the year 2021. The remaining balance to be repaid at September 30, 2016, is \$66,420.

E. Due to Others

At September 30, 2016, the County held \$1,040,000 on deposit by a third party to cover potential repair expenses in the event of road damages resulting from third party activities. At September 30, 2016, the County also held \$76,557 of the state portion of fines and fees collected for the third calendar quarter of 2016.

F. Capital Assets

Capital asset activity for the year ended September 30, 2016, is as follows:

	Balance 9/30/2015	Additions	Deletions/ Adjustments	Balance 9/30/2016
Governmental activities				
Capital assets not depreciated:				
Land	\$ 544,383	\$ -	\$ -	\$ 544,383
Total capital assets not being depreciated	<u>544,383</u>	<u>-</u>	<u>-</u>	<u>544,383</u>
Capital assets being depreciated:				
Buildings	12,516,033	-	35,000	12,481,033
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,627,726	-	-	2,627,726
Machinery and other equipment	<u>11,044,789</u>	<u>745,575</u>	<u>384,965</u>	<u>11,405,399</u>
Total capital assets being depreciated	137,637,312	745,575	419,965	137,962,922
Less: accumulated depreciation:				
Buildings	8,092,869	294,142	21,223	8,365,788
Infrastructure	110,112,367	138,566	-	110,250,933
Improvements	1,644,615	144,284	-	1,788,899
Machinery and other equipment	<u>8,429,523</u>	<u>879,746</u>	<u>336,223</u>	<u>8,973,046</u>
Total capital assets being depreciated	128,279,374	1,456,738	357,446	129,378,666
Total depreciable assets, net	<u>9,357,938</u>	<u>(711,163)</u>	<u>62,519</u>	<u>8,584,256</u>
Total capital assets	<u>\$ 9,902,321</u>	<u>\$(711,163)</u>	<u>\$ 62,519</u>	<u>\$ 9,128,639</u>

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

Governmental activities:	
General government	\$ 82,342
Justice system	18,404
Public safety	267,144
Corrections and rehabilitation	157,896
Health and human services	18,312
Community and economic development	2,716
Infrastructure and environmental services	<u>909,924</u>
Total governmental activities depreciation expense	<u>\$ 1,456,738</u>

G. Interfund Balances and Transfers

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and bridge fund	General fund	\$ 1,062,903
Nonmajor funds	General fund	162,407
Nonmajor funds	Nonmajor funds	<u>64,062</u>
		<u>\$ 1,289,372</u>

Interfund transfers for the fiscal year ended September 30, 2016, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
Nonmajor funds	\$ 16,878	General fund	Supplement fund sources
General fund	224,494	Road and bridge fund	Supplement fund sources
General fund	<u>704,643</u>	Nonmajor funds	Supplement fund sources
Total transfers	<u>\$ 946,015</u>		

H. Long-term Liabilities

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2016.

	<u>Balance September 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2016</u>	<u>Amounts Due Within One Year</u>
Notes payable	\$ 379,395	\$ 230,951	\$ 73,868	\$ 536,478	\$ 239,897
Compensated absences	247,243	247,846	226,901	268,188	45,380
Net pension liability	1,775,901	4,253,739	2,545,712	3,483,928	-
Net OPEB obligation	<u>422,511</u>	<u>308,112</u>	<u>251,592</u>	<u>479,031</u>	<u>-</u>
Total governmental activities	<u>\$ 2,825,050</u>	<u>\$ 5,040,648</u>	<u>\$ 3,098,073</u>	<u>\$ 4,767,625</u>	<u>\$ 285,277</u>

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

Notes Payable

The notes payable outstanding at September 30, 2016, were issued for the purpose of obtaining road and bridge equipment and a server for the courthouse. The notes are secured by the purchased equipment. The original principal amounts totaling \$690,819 are payable in monthly installments with interest of 2.20%-5.00%. Final maturity of the notes is September 8, 2019.

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

Year Ended September 30,	Principal	Interest	Total
2017	\$ 105,533	\$ 13,973	\$ 119,506
2018	350,713	7,497	358,210
2019	<u>80,232</u>	<u>1,416</u>	<u>81,648</u>
Total	<u>\$ 536,478</u>	<u>\$ 22,886</u>	<u>\$ 559,364</u>

IV. OTHER INFORMATION

A. Pension Plan

Plan Description

The County participates in a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (“TCDRS”). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent, multiple-employer, public employee retirement system consisting of nontraditional defined benefit pension plans. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tcdrs.org.

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

Benefits Provided

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

Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act. Updated annuity purchase rates will go into effect for post-2017 benefit accruals earned after 2017. Benefits accrued before 2018 will not be impacted by this update. This change was reflected in the 2015 actuarial valuation.

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	155
Inactive employees entitled to but not yet receiving benefits	181
Active employees	<u>260</u>
	<u>596</u>

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

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 11.61% and 14.44% in calendar years 2015 and 2016, respectively. The County's contributions to TCDRS for the year ended September 30, 2016, were \$1,015,379, and were \$135,101 greater than the required contributions.

Net Pension Liability. The County's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	2.5% per year
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

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

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

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

The long-term expected rate of return on pension plan investments is 8.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees. The application of the investment return assumption was changed for purposes of determining plan liabilities in the 2015 actuarial valuation. All plan liabilities are now valued using an 8% discount rate. Previously, some liabilities were valued using a 7% discount rate and others were valued using a 9% discount rate.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2016 information for a 7 to 10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2014. The target allocation and best estimates of geometric real rates return for each major assets class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities - Developed	50% MSCI World Ex USA (net)	10.00%	5.45%
International Equities - Emerging	50% MSCI World Ex USA (net)	8.00%	6.45%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

⁽¹⁾ Target asset allocation adopted at the April 2016 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.6% per Cliffwater's 2016 capital market assumptions.

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

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

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ 33,883,701	\$ 32,107,800	\$ 1,775,901
Changes for the year:			
Service cost	1,087,069	-	1,087,069
Interest on total pension liability ⁽¹⁾	2,715,879	-	2,715,879
Effect of plan changes ⁽²⁾	(172,587)	-	(172,587)
Effect of economic/demographic gains or losses	(326,643)	-	(326,643)
Effect of assumptions changes or inputs	402,325	-	402,325
Refund of contributions	(129,824)	(129,824)	-
Benefit payments	(1,909,728)	(1,909,728)	-
Administrative expenses	-	(23,062)	23,062
Member contributions	-	659,026	(659,026)
Net investment income	-	369,520	(369,520)
Employer contributions	-	1,017,936	(1,017,936)
Other ⁽³⁾	-	(25,404)	25,404
Balance at 12/31/2015	\$ 35,550,192	\$ 32,066,264	\$ 3,483,928

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

⁽²⁾ Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

⁽³⁾ Relates to allocation of system-wide items.

Sensitivity Analysis

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

	1% Decrease 7.1%	Current	1% Increase 9.1%
		Discount Rate 8.1%	
Total pension liability	\$ 39,651,324	\$ 35,550,192	\$ 32,114,683
Fiduciary net position	32,066,264	32,066,264	32,066,264
Net pension liability/(asset)	\$ 7,585,060	\$ 3,483,928	\$ 48,419

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2016, the County recognized pension expense of \$929,072. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 291,003
Changes in actuarial assumptions	301,744	-
Difference between projected and actual investment earnings	2,010,086	-
Contributions subsequent to the measurement date	<u>668,832</u>	<u>-</u>
Total	<u>\$ 2,980,662</u>	<u>\$ 291,003</u>

\$668,832 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ended September 30,</u>	
2017	\$ 516,742
2018	516,742
2019	539,752
2020	447,590

B. Other Post-employment Benefits

Program Description

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

Funding Policy

The County contributions to the Retiree Health Program consist of a pay-as-you-go monthly contribution rate of \$300 per participant. The County contributions to the plan for fiscal year 2016 were \$220,468.

Annual OPEB Cost and Net OPEB Obligation

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

The following table presents the components of the County's annual OPEB cost for the fiscal year ended September 30, 2016, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

Annual required contribution (ARC)	\$ 290,155
Interest on net OPEB obligation	17,957
Adjustment to annual required contribution	<u>(31,124)</u>
Annual OPEB cost (expense)	276,988
Contributions made	<u>(220,468)</u>
Change in OPEB obligation	56,520
Net OPEB obligation (asset), beginning	<u>422,511</u>
Net OPEB obligation (asset) ending	<u>\$ 479,031</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended September 30, 2016, and the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 207,779	\$ 198,686	95.6%	\$ 361,508
2015	278,888	217,885	78.1%	422,511
2016	276,988	220,468	79.6%	479,031

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

The ARC for the current year was determined as part of the December 31, 2014, actuarial valuation using the following methods and assumptions:

Actuarial Methods and Assumptions	
Actuarial valuation date	12/31/2014
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Amortization period	10.1 years
Inflation rate	3.0% per year
Investment rate of return	8.00%, net of expenses, including inflation

C. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The County provides for the management of risks through insurance coverage. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

D. Contingent Liabilities

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

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

E. Subsequent Event

On November 14, 2016, the County issued two notes to First National Bank Leasing, Wichita Falls, TX, each for \$268,728. The notes will be secured by the lease/purchase agreement acquiring two 2016 CAT Excavators for use by the Road & Bridge department in repair and maintenance of County infrastructure. The notes mature November 14, 2019, and pay interest at 2.55% per annum. Payments will be made annually to retire the principle until the maturity date.

F. Related Party Transaction

During the 2016 fiscal year a member of the Commissioners Court entered into a transaction with the County. The County purchased fill dirt from the Commissioner for \$634. The transaction was approved by Commissioners Court and the Commissioner selling the fill dirt abstained from the vote.

**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, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 9,662,816	\$ 9,662,816	\$ 9,603,513	\$(59,303)
Sales	1,508,000	1,508,000	1,760,855	252,855
Mixed beverage	25,000	25,000	15,918	(9,082)
Fees of office	713,800	713,800	917,430	203,630
Intergovernmental	297,943	297,943	323,648	25,705
Fines and forfeitures	535,075	535,075	629,020	93,945
Interest	31,190	31,190	34,294	3,104
Miscellaneous	1,200	1,200	167,627	166,427
Proceeds from sale of assets	-	24,834	24,830	(4)
Proceeds from insurance	-	49,228	66,494	17,266
Transfers	1,790,286	1,847,286	1,848,164	878
Total revenues, as classified by budget	<u>14,565,310</u>	<u>14,696,372</u>	15,391,793	<u>695,421</u>
Less: other financing sources budgeted as revenues			<u>(1,939,488)</u>	
Total revenues, as classified per GAAP			<u>13,452,305</u>	
EXPENDITURES				
County auditor	258,498	258,498	255,591	2,907
Information technology	148,672	148,672	139,996	8,676
Veterans service office	96,624	96,624	79,597	17,027
Human resources	71,745	71,745	70,033	1,712
Maintenance	387,242	387,242	342,291	44,951
Agricultural agent	181,178	181,178	175,357	5,821
Tax assessor-collector	558,583	558,583	524,867	33,716
District clerk	285,064	285,064	250,658	34,406
Child support	79,342	79,342	71,909	7,433
County clerk	401,581	401,581	382,626	18,955
Elections	271,414	271,414	256,880	14,534
County treasurer	177,560	177,560	171,349	6,211
Sheriff	2,882,474	2,956,536	2,741,314	215,222
Jail	2,279,236	2,279,236	2,229,141	50,095
County judge	206,224	206,224	205,171	1,053
County attorney	373,602	373,602	346,851	26,751
District attorney	476,900	476,900	434,448	42,452
Justice of the peace - Pct. #1	106,654	106,654	110,236	(3,582)
Justice of the peace - Pct. #2	109,640	109,640	113,657	(4,017)
Justice of the peace - Pct. #3	118,448	118,448	112,409	6,039
Justice of the peace - Pct. #4	110,162	110,162	121,254	(11,092)
Constable - Pct. #1	74,888	74,888	75,032	(144)
Constable - Pct. #2	78,878	78,878	71,201	7,677
Constable - Pct. #3	75,830	75,830	75,082	748
Constable - Pct. #4	75,186	75,186	73,857	1,329

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, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 380,060	\$ 380,060	\$ 393,660	\$(13,600)
Court administrator - 2nd / 369th district court	134,758	134,758	127,204	7,554
369th judicial district court	169,358	169,358	122,634	46,724
County court-at-law	569,530	569,530	600,058	(30,528)
Transfers to other funds	741,852	829,852	829,952	(100)
Other departmental	1,340,710	1,340,710	1,223,810	116,900
County special	383,454	383,454	374,882	8,572
County/state special	29,200	29,200	34,355	(5,155)
Juvenile probation	316,971	316,971	314,274	2,697
Emergency management	65,076	65,076	62,975	2,101
Rural addressing	23,563	23,563	22,894	669
Records management	43,000	43,000	46,230	(3,230)
Department of public safety	15,225	15,225	5,255	9,970
Total expenditures - sub-fund 010	<u>14,098,382</u>	<u>14,260,444</u>	<u>13,588,990</u>	<u>671,454</u>
Solid waste - sub-fund 021	128,166	144,166	183,674	(39,508)
General fund special - sub-fund 025	1,778,000	1,778,000	1,778,000	-
Indigent health - sub-fund 045	778,546	778,546	195,819	582,727
Historical commission - sub-fund 050	15,055	15,055	12,666	2,389
Total expenditures, as classified by budget	<u>16,798,149</u>	<u>16,976,211</u>	15,759,149	<u>1,217,062</u>
Less: other financing uses budgeted as expenditures			(2,760,423)	
Total expenditures, as classified per GAAP			<u>12,998,726</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>453,579</u>	
OTHER FINANCING SOURCES (USES)				
Transfers in			16,878	
Transfers out			(929,137)	
Proceeds from sale of assets			24,830	
Proceeds from insurance			66,494	
Total other financing sources (uses)			<u>(820,935)</u>	
NET CHANGE IN FUND BALANCES	(2,232,839)	(2,279,839)	(367,356)	1,912,483
FUND BALANCES, BEGINNING	<u>2,223,871</u>	<u>2,223,871</u>	<u>2,223,871</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$(8,968)</u>	<u>\$(55,968)</u>	<u>\$ 1,856,515</u>	<u>\$ 1,912,483</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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 3,973,531	\$ 3,973,531	\$ 3,942,895	\$(30,636)
Fees of office	899,000	899,000	913,809	14,809
Intergovernmental	48,000	135,953	564,232	428,279
Interest	6,722	6,722	12,829	6,107
Miscellaneous	-	12,000	120,577	108,577
Total revenues	<u>4,927,253</u>	<u>5,027,206</u>	<u>5,554,342</u>	<u>527,136</u>
EXPENDITURES				
General government	539,906	539,906	508,447	31,459
Infrastructure and environmental services	4,293,841	4,591,018	5,561,761	(970,743)
Capital outlay	250,227	250,227	438,348	(188,121)
Debt service:				
Principal	58,442	58,442	58,442	-
Interest	<u>11,331</u>	<u>11,331</u>	<u>11,331</u>	<u>-</u>
Total expenditures	<u>5,153,747</u>	<u>5,450,924</u>	<u>6,578,329</u>	<u>(1,127,405)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(226,494)</u>	<u>(423,718)</u>	<u>(1,023,987)</u>	<u>(600,269)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	208,494	208,494	224,494	16,000
Proceeds from the issuance of debt	-	-	230,951	230,951
Proceeds from sale of assets	-	-	73,242	73,242
Proceeds from insurance	<u>-</u>	<u>32,533</u>	<u>216,911</u>	<u>184,378</u>
Total other financing sources (uses)	<u>208,494</u>	<u>241,027</u>	<u>745,598</u>	<u>504,571</u>
NET CHANGE IN FUND BALANCES	<u>(18,000)</u>	<u>(182,691)</u>	<u>(278,389)</u>	<u>(95,698)</u>
FUND BALANCES, BEGINNING	<u>1,535,975</u>	<u>1,535,975</u>	<u>1,535,975</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,517,975</u>	<u>\$ 1,353,284</u>	<u>\$ 1,257,586</u>	<u>\$(95,698)</u>

CHEROKEE COUNTY, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

SEPTEMBER 30, 2016

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

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

CHEROKEE COUNTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
SEPTEMBER 30, 2016

<u>Fiscal Year Ended September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 1,390,907	\$ 1,390,907	\$ -	\$ 8,429,398	16.5%
2015	1,564,903	1,664,903	(100,000)	9,363,430	17.8%
2016	880,278	1,015,379	(135,101)	10,533,139	9.6%

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

CHEROKEE COUNTY, TEXAS

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

SEPTEMBER 30, 2016

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	10.1 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

CHEROKEE COUNTY, TEXAS

RETIREE HEALTH PROGRAM

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2010	\$ -	\$ 2,684,922	\$ 2,684,922	- %	\$ 7,896,947	34.00%
12/31/2012	-	2,138,682	2,138,682	- %	7,959,786	26.87%
12/31/2014	-	2,588,147	2,588,147	- %	9,363,430	27.64%

**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
ASSETS					
Cash and cash equivalents	\$ 8,082	\$ -	\$ 654,468	\$ 19,709	\$ -
Investments	40,286	160,559	-	-	231,896
Due from other funds	-	-	226,469	-	-
Receivables (net of allowance for uncollectibles)					
Taxes	-	-	-	-	-
Due from other governments	114,870	-	-	-	-
Total assets	<u>\$ 163,238</u>	<u>\$ 160,559</u>	<u>\$ 880,937</u>	<u>\$ 19,709</u>	<u>\$ 231,896</u>
LIABILITIES					
Accounts payable	\$ 11,811	\$ 2,364	\$ 6,340	\$ 597	\$ 6,369
Accrued liabilities	19,023	3,355	773	-	20,831
Due to other funds	-	1,035	-	-	53,425
Total liabilities	<u>30,834</u>	<u>6,754</u>	<u>7,113</u>	<u>597</u>	<u>80,625</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable - property taxes	-	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted for:					
Justice system	-	-	-	-	151,271
Public safety	-	-	-	19,112	-
Corrections and rehabilitation	-	-	-	-	-
Debt service	-	-	-	-	-
Assigned for:					
Health and human services	132,404	-	-	-	-
Infrastructure and environmental services	-	153,805	873,824	-	-
Capital projects	-	-	-	-	-
Unassigned	-	-	-	-	-
Total fund balances	<u>132,404</u>	<u>153,805</u>	<u>873,824</u>	<u>19,112</u>	<u>151,271</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 163,238</u>	<u>\$ 160,559</u>	<u>\$ 880,937</u>	<u>\$ 19,709</u>	<u>\$ 231,896</u>

Special Revenue

Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	State Hospital/ MHMR	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 28,180	\$ 27,201	\$ 16,527	\$ 19,004	\$ -	\$ -	\$ 264	\$ 37	\$ 773,472
-	-	-	-	-	-	56,279	97,673	586,693
-	-	-	-	-	-	-	-	226,469
-	-	-	-	-	-	21,061	-	21,061
-	-	-	-	-	-	-	-	114,870
<u>\$ 28,180</u>	<u>\$ 27,201</u>	<u>\$ 16,527</u>	<u>\$ 19,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,604</u>	<u>\$ 97,710</u>	<u>\$ 1,722,565</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,298	\$ -	\$ -	\$ 30,779
-	-	-	-	-	-	-	-	43,982
-	-	-	-	-	9,602	-	-	64,062
-	-	-	-	-	12,900	-	-	138,823
-	-	-	-	-	-	18,764	-	18,764
-	-	-	-	-	-	18,764	-	18,764
-	27,201	-	-	-	-	-	-	178,472
-	-	16,527	19,004	-	-	-	-	54,643
28,180	-	-	-	-	-	-	-	28,180
-	-	-	-	-	-	58,840	-	58,840
-	-	-	-	-	-	-	-	132,404
-	-	-	-	-	-	-	-	1,027,629
-	-	-	-	-	-	-	97,710	97,710
-	-	-	-	-	(12,900)	-	-	(12,900)
<u>28,180</u>	<u>27,201</u>	<u>16,527</u>	<u>19,004</u>	<u>-</u>	<u>(12,900)</u>	<u>58,840</u>	<u>97,710</u>	<u>1,564,978</u>
<u>\$ 28,180</u>	<u>\$ 27,201</u>	<u>\$ 16,527</u>	<u>\$ 19,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,604</u>	<u>\$ 97,710</u>	<u>\$ 1,722,565</u>

CHEROKEE COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue				
	County Health Unit	Airport	Grant	Law Enforcement Education	Juvenile Probation
	\$	\$	\$	\$	\$
REVENUES					
Property taxes	-	-		-	-
Fees of office	153,319	372,597	215,597	-	-
Intergovernmental	852,046	3,643	90,227	7,861	536,454
Fines and forfeitures	-	-	44,340	-	9,100
Interest	381	551	-	30	899
Miscellaneous	-	-	-	-	376
Total revenues	<u>1,005,746</u>	<u>376,791</u>	<u>350,164</u>	<u>7,891</u>	<u>546,829</u>
EXPENDITURES					
Current:					
General government	-	-	81,027	-	-
Justice system	-	-	167,937	-	825,392
Public safety	-	-	15,054	8,088	-
Corrections and rehabilitation	-	-	-	-	-
Health and human services	1,309,468	-	-	-	-
Infrastructure and environmental services	-	408,347	-	-	-
Capital outlay	-	8,032	-	-	-
Total expenditures	<u>1,309,468</u>	<u>416,379</u>	<u>264,018</u>	<u>8,088</u>	<u>825,392</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(303,722)</u>	<u>(39,588)</u>	<u>86,146</u>	<u>(197)</u>	<u>(278,563)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	308,000	38,222	31,100	-	252,471
Transfers out	-	(16,778)	-	-	-
Total other financing sources and uses	<u>308,000</u>	<u>21,444</u>	<u>31,100</u>	<u>-</u>	<u>252,471</u>
NET CHANGE IN FUND BALANCES	4,278	(18,144)	117,246	(197)	(26,092)
FUND BALANCES, BEGINNING	<u>128,126</u>	<u>171,949</u>	<u>756,578</u>	<u>19,309</u>	<u>177,363</u>
FUND BALANCES, ENDING	<u>\$ 132,404</u>	<u>\$ 153,805</u>	<u>\$ 873,824</u>	<u>\$ 19,112</u>	<u>\$ 151,271</u>

Special Revenue

Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	CDBG Grant	State Hospital/ MHMR	Debt Service	Capital Projects	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,021	\$ -	\$ 2,021
88,080	-	-	-	-	59,810	-	-	889,403
-	-	-	-	-	-	-	-	1,490,231
-	7,865	3,559	29	-	-	-	-	64,893
-	-	-	-	-	-	262	350	2,473
-	-	-	-	6,091	-	-	-	6,467
<u>88,080</u>	<u>7,865</u>	<u>3,559</u>	<u>29</u>	<u>6,091</u>	<u>59,810</u>	<u>2,283</u>	<u>350</u>	<u>2,455,488</u>
-	-	-	-	-	-	-	-	81,027
-	14,788	-	-	-	-	-	-	1,008,117
-	-	7,211	729	-	-	-	-	31,082
90,006	-	-	-	-	-	-	-	90,006
-	-	-	-	-	77,962	-	-	1,387,430
-	-	-	-	-	-	-	-	408,347
-	-	-	-	-	-	-	26,565	34,597
<u>90,006</u>	<u>14,788</u>	<u>7,211</u>	<u>729</u>	<u>-</u>	<u>77,962</u>	<u>-</u>	<u>26,565</u>	<u>3,040,606</u>
(1,926)	(6,923)	(3,652)	(700)	6,091	(18,152)	2,283	(26,215)	(585,118)
-	-	-	-	-	-	-	74,850	704,643
-	-	-	-	(100)	-	-	-	(16,878)
-	-	-	-	(100)	-	-	74,850	687,765
(1,926)	(6,923)	(3,652)	(700)	5,991	(18,152)	2,283	48,635	102,647
<u>30,106</u>	<u>34,124</u>	<u>20,179</u>	<u>19,704</u>	<u>(5,991)</u>	<u>5,252</u>	<u>56,557</u>	<u>49,075</u>	<u>1,462,331</u>
<u>\$ 28,180</u>	<u>\$ 27,201</u>	<u>\$ 16,527</u>	<u>\$ 19,004</u>	<u>\$ -</u>	<u>\$(12,900)</u>	<u>\$ 58,840</u>	<u>\$ 97,710</u>	<u>\$ 1,564,978</u>

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SINGLE AUDIT SECTION

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise of the County's basic financial statements, and have issued our report thereon dated June 29, 2017.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002 that we consider to be significant deficiency.

Compliance and Other Matters

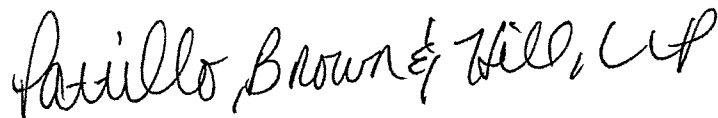
As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

Cherokee County's Response to Findings

Cherokee County's response to the findings identified in our audit in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Waco, Texas
June 29, 2017



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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS

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

Report on Compliance for Each Major Federal or State Program

We have audited Cherokee County, Texas' ("the County") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* and the State of Texas *Uniform Grant Management Standards* ("UGMS") that could have a direct and material effect on each of the County's major federal and state programs for the year ended September 30, 2016. The County's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and UGMS. Those standards, the Uniform Guidance, and UGMS require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on County Transportation Infrastructure Fund

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding County Transportation Infrastructure Fund as described in finding number 2016-001 for Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on County Transportation Infrastructure Fund

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on County Transportation Infrastructure Fund for the year ended September 30, 2016.

Unmodified Opinion on Each of the Other Major Federal and State Programs

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal and state programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2016.

Other Matters

The County's response to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and UGMS, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal and state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 to be material weaknesses.

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

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Saxillo, Brown & Hill, LLP

Waco, Texas
June 29, 2017

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Total Federal Expenditures	Pass-through Expenditures
<u>U. S. Department of Justice</u>				
Direct program:				
State Criminal Alien Assistance Program	16.606	2016-AP-BX-0100	\$ 4,000	\$ -
Passed through the Office of the Governor:				
Crime Victim Assistance	16.575	2897801	22,916	-
Violence Against Women Formula Grants	16.588	2897901	52,566	-
Total Passed through the Office of the Governor			75,482	-
Total U. S. Department of Justice			79,482	-
<u>U. S. Department of Health and Human Services</u>				
Passed through Texas Department of State Health Services:				
Public Health Emergency Preparedness	93.069	2016-001154-00	90,937	-
Public Health Emergency Preparedness	93.069	2015-047200	23,082	-
Total 93.069 Program			114,019	-
Tuberculosis Control Programs	93.116	2016-001376	14,624	-
Family Planning Services	93.217	N/A	46,758	-
Immunization Cooperative Agreements	93.268	2016-001056	51,764	-
Temporary Assistance for Needy Families	93.558	2015-047045-001	30,197	-
Cancer Prevention and Control Programs	93.752	2015-047045-001	25,325	-
Preventive Health and Health Services Block Grant	93.991	2016-001272-00	61,174	-
Total Passed through Texas Department of State Health Services			343,861	-
Passed through Texas Department of Family and Protective Services:				
Title IV-E Legal Services	93.658	23938997	9,808	-
Total Passed through Texas Department of Family Protective Services			9,808	-
Passed through Texas Department of Health and Human Services Commission:				
Medical Assistance Program	93.778	N/A	29,040	-
Total Passed through Texas Department of Health and Human Services Commission			29,040	-
Total U. S. Department of Health and Human Services			382,709	-
<u>U. S. Department of Homeland Security</u>				
Passed through Texas Department of Public Safety:				
Disaster Grants - Public Assistance	97.036	FEMA-4223-DRTX	451,950	-
Total Passed through Texas Department of Public Safety			451,950	-
Passed through the Office of the Governor:				
Homeland Security Grant Program	97.067	2947501	15,000	-
Total Passed through Office of the Governor			15,000	-
Total U. S. Department of Homeland Security			466,950	-
Total Expenditures of Federal Awards			\$ 929,141	\$ -

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

State Grantor/Pass-through Grantor/ Program Title	Pass-through Grantor Number	Total State Expenditures
<u>Texas Task Force on Indigent Defense</u>		
Passed through the Office of Court Administration		
Indigent Defense Services	N/A	\$ 40,057
Total Passed through the Office of Court Administrator		<u>40,057</u>
Total Texas Task Force on Indigent Defense		<u>40,057</u>
<u>Texas Department of Transportation</u>		
County Transportation Infrastructure Fund	N/A	<u>255,412</u>
Total Texas Department of Transportation		<u>255,412</u>
<u>Commission on State Emergency Communications</u>		
Passed through East Texas Council of Governments:		
Mapping & 911 Data Base Services	N/A	<u>22,894</u>
Total Passed through East Texas Council of Governments		<u>22,894</u>
Total Commission on State Emergency Communications		<u>22,894</u>
<u>Texas Department of State Health Services</u>		
Tuberculosis/Primary Care	2016-001402	12,331
Tuberculosis/Primary Care	2017-001402	1,121
CHS/Primary Health Care	2016-048599-001	72,720
Extended Primary Health Care	2016-046734-001	231,605
Immunization Branch - Locals	2016-001056	58,659
Immunization Branch - Locals	2017-001056	9,288
Breast and Cervical Cancer Services	2015-047045-001	11,703
RLSS/Local Public Health System	2016-001272-00	19,212
PHEP Ebola	2015-003649-00	<u>8,237</u>
Total Texas Department of State Health Services		<u>424,876</u>
<u>Commission on Law Enforcement</u>		
Law Enforcement Officer Standards and Education	N/A	<u>7,861</u>
Total Commission on Law Enforcement		<u>7,861</u>
Total Expenditures of State Awards		\$ <u>751,100</u>

CHEROKEE COUNTY, TEXAS

**NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AND STATE AWARDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

1. GENERAL

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

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the financial statements. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance and *State of Texas Uniform Grant Management Standards*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. INDIRECT COSTS

The County has elected not to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance.

CHEROKEE COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Summary of Auditors' Results

Financial Statements:

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

Federal and State Awards:

Internal control over major programs:	
Material weakness(es) identified?	2016-001, 2016-002
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major federal programs	Unmodified
---	------------

Type of auditors' report issued on compliance for major state programs	Qualified
---	-----------

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) or State of Texas Uniform Grant Management Standards	2016-001, 2016-002
--	--------------------

Identification of major programs:	Name of Program or Cluster:
CFDA # 97.036	Disaster Grants - Public Assistance
State	Extended Primary Health Care
State	County Transportation Infrastructure Fund

Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
--	-----------

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

Auditee qualified as low-risk auditee for federal single audit?	No
--	----

Auditee qualified as low-risk auditee for state single audit?	No
--	----

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

None reported.

Findings and Questioned Costs for Federal and State Awards

Finding 2016-001

State Grantor:	Texas Department of Transportation
Program:	County Transportation Infrastructure Fund
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Cost:	\$26,215
Criteria:	Entities must report payroll expenditures based on actual time worked when employees do not work 100% of their time on one program.
Condition:	The County provided Labor Summaries for the program, summarizing the hours worked by employees on the program. However, the County could not substantiate these labor summaries with time sheets. The condition is caused by a lack of detail in the employees' time sheets.
Effect:	Payroll records were not available to determine the actual time worked on each program.
Recommendation:	The County should implement policies and procedures that will allow all employees who are being paid with grant money to track exactly how much time they spend on each program.
Management's Response:	Currently, elected officials and department heads are tasked with keeping any and all documents related to grant funding in their departments. In the future, the County Auditor's Office will review prior to submission and keep all documentation, either originals or copies, and records related to any grant funding. Related specifically to time keeping, Cherokee County will be more diligent in documenting actual time worked with an updated 'Daily Activity Log' that will be used to support any Labor Summaries when necessary.

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Findings and Questioned Costs for Federal and State Awards

Finding 2016-002

State/Federal Grantor: Department of Homeland Security, Texas Department of Transportation

Program: Disaster Grants – Public Assistance (FEMA-4223-DRTX), County Transportation Infrastructure Fund

Compliance Requirement: Procurement

Criteria: Per 2 CFR 200.213 and the State of Texas *Uniform Grant Management Standards*, recipients of federal and state awards are prohibited from contracting with or making sub-awards to parties that are suspended, debarred or otherwise excluded from or ineligible for participation in federal or state assistance programs or activities.

Condition: We identified instances in which no documentation could be provided by the County for the verification of vendor suspension or debarment status. The condition exists because of a lack of procurement procedures regarding suspended and debarred vendors or sub-awardees.

Effect: The County could inadvertently make a sub-award to or contract with a suspended, debarred or otherwise excluded party. These costs could be subject to disallowance by a federal or state granting agency. In our testing, however, we did not note a situation where the County made a sub-award or contracted with suspended, debarred or otherwise excluded parties.

Recommendation: We recommend the County implement a policy to verify that each entity it contracts with or makes sub-awards to is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the System for Award Management (www.sam.gov) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Additionally, management or representatives of management should periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Findings and Questioned Costs for Federal and State Awards

Finding 2016-002 (continued)

Management's Response:

As of June 30, 2017, before contracting or making any sub-awards in relation to federal or state funding, Cherokee County will verify the suspension, debarment or exclusion status of any vendors to avoid awarding contracts to those not eligible for participation in federal or state assistance program activities. Cherokee County will use www.sam.gov to accomplish this.

CHEROKEE COUNTY, TEXAS

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Item 2015-001:

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

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

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

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

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

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

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

Current Status: This matter has been resolved.

CHEROKEE COUNTY, TEXAS

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
(continued)**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Findings and Questioned Costs for State Awards

Finding 2015-002

State Grantor:	Texas Department of State Health Services
Program:	CHS/Primary Health Care and Extended Primary Health Care
Compliance Requirement:	Allowable Costs/Cost Principles
Questioned Cost:	\$233,708
Criteria:	Entities must report payroll expenditures based on actual time worked when employees do not work 100% of their time on one program.
Condition:	The County requested reimbursement for payroll expenditures based on budget instead of actual time worked on the program.
Effect:	Payroll records were not available to determine the actual time worked on each program.
Recommendation:	The County should implement policies and procedures that will allow all employees who are being paid with grant money to track exactly how much time they spend on each program.
Current Status:	This matter has been resolved.