

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2018

CHEROKEE COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

TABLE OF CONTENTS

	<u>Page Number</u>
INTRODUCTORY SECTION	
Principal Officials	1
FINANCIAL SECTION	
Independent Auditors' Report.....	2 – 4
Management's Discussion and Analysis.....	5 – 10
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12 – 13
Fund Financial Statements	
Balance Sheet – Governmental Funds	14 – 15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	17 – 18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Fiduciary Assets and Liabilities	20
Notes to Financial Statements	21 – 41

CHEROKEE COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(Continued)
TABLE OF CONTENTS

	<u>Page Number</u>
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance of General Fund – Budget and Actual.....	42 – 43
Schedule of Revenues, Expenditures and Changes in Fund Balance of Road and Bridge – Budget and Actual	44
Schedule of Changes in Net Pension Liability and Related Ratios	45 – 46
Schedule of Employer Contributions	47
Notes to Schedule of Employer Contributions.....	48
Schedule Changes in Total OPEB Liability and Related Ratios – Retiree Health Program	49
Combining Fund Financial Statements - Nonmajor Governmental Funds	
Combining Balance Sheet.....	50 – 53
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	54 – 57
 COMPLIANCE SECTION	
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 <i>Government Auditing Standards</i>	58 – 59

INTRODUCTORY SECTION

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2018

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Patrick Reagan

Billy McCutcheon

COUNTY AUDITOR

Amanda Scott

THIS PAGE LEFT BLANK INTENTIONALLY

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY

INDEPENDENT AUDITORS' REPORT

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, 2018, 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note I to the financial statements, in 2018 the County adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Waco, Texas
June 28, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

THIS PAGE LEFT BLANK INTENTIONALLY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cherokee County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2018. This analysis should be read in conjunction with the financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$7,451,379 (net position). Of this amount, (\$2,888,988) is a deficit of unrestricted net position.
- The County's total net position (government-wide) increased by \$257,269 due to operations. The primary cause for this increase was due to increases in property tax and interest revenues compared to the prior year. However, a prior period adjustment due to Governmental Accounting Standards Board (GASB) Statement No. 75 caused a decrease in beginning net position in the amount of \$5,845,213.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$6,392,525, an increase of \$1,206,535 in comparison with the prior year. Approximately 49% of this total amount, \$3,144,858, is available for spending at the County's discretion (unassigned and assigned fund balance). The primary cause of this increase was significant proceeds from the sale of road and bridge assets.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,955,870 or 15% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) increased by \$4,393,711 (365%) during the current fiscal year. The primary cause of this increase was due to the County assuming its total OPEB liability in accordance with GASB Statement No. 75 during FY18.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

In the Statement of Net Position and the Statement of Activities, the County reports all of its activities as *governmental activities*. The County's basic services are reported here such as general government, public safety, judicial, community services, and transportation. These activities are principally supported by taxes and intergovernmental revenues.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets and deferred outflows exceeded liabilities and deferred inflows by \$7,451,379 as of September 30, 2018.

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	
	2018	2017
Current and other assets	\$ 10,605,171	\$ 9,521,581
Capital assets	<u>8,434,045</u>	<u>8,531,167</u>
Total assets	<u>19,039,216</u>	<u>18,052,748</u>
Deferred outflows - pensions	950,950	2,544,815
Deferred outflows - OPEB	<u>550,981</u>	<u>-</u>
Total deferred outflows of resources	<u>1,501,931</u>	<u>2,544,815</u>
Long-term liabilities	9,336,861	4,943,150
Other liabilities	<u>2,354,381</u>	<u>2,094,312</u>
Total liabilities	<u>11,691,242</u>	<u>7,037,462</u>
Deferred inflows - pensions	<u>1,398,526</u>	<u>520,778</u>
Total deferred inflows of resources	<u>1,398,526</u>	<u>520,778</u>
Net position:		
Net investment in capital assets	7,092,700	7,562,766
Restricted	3,247,667	297,937
Unrestricted	<u>(2,888,988)</u>	<u>5,178,620</u>
Total net position	<u>\$ 7,451,379</u>	<u>\$ 13,039,323</u>

Governmental Activities. Governmental activities increased Cherokee County’s net position by \$257,269. A key element of this increase in net position was a \$750,799 or 3% increase in fiscal year 2018 revenues as compared to fiscal year 2017. The increase was composed primarily of property taxes, investment income, and sales of capital assets. Total expenses decreased by \$808,361, primarily driven by a decrease of \$658,696 in the Infrastructure and Environmental function.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2018	2017
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 3,500,246	\$ 3,493,535
Operating grants and contributions	1,426,091	1,833,901
General revenues:		
Property taxes	14,559,134	14,073,852
Sales and other taxes	1,831,592	1,780,802
Gain on disposal of capital assets	366,161	84,802
Investment income	161,445	77,571
Miscellaneous	326,682	76,089
Total revenues	22,171,351	21,420,552
EXPENSES		
General government	5,343,575	5,498,164
Justice system	3,617,696	3,562,455
Public safety	3,032,382	3,139,893
Corrections and rehabilitation	2,563,475	2,474,884
Health and human services	1,168,022	1,260,123
Community and economic development	246,269	199,270
Infrastructure and environmental	5,914,985	6,573,681
Interest and fiscal charges	27,678	13,973
Total expenses	21,914,082	22,722,443
DECREASE IN NET POSITION	257,269	(1,301,891)
NET POSITION, BEGINNING	13,039,323	14,341,214
PRIOR PERIOD ADJUSTMENT	(5,845,213)	-
NET POSITION, BEGINNING, RESTATED	7,194,110	14,341,214
NET POSITION, ENDING	\$ 7,451,379	\$ 13,039,323

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As the County completed the year, its governmental funds, as presented in the balance sheet in this report, reported a *combined* fund balance of \$6,392,525 which is an increase of \$1,206,535 from last year's total of \$5,185,990.

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 \$1,955,870. 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 15% of the total

General Fund expenditures. Additionally, revenues increased primarily because of increases to property tax revenue that covered expenditures, which were consistent with prior year. The Road and Bridge fund, a major governmental special revenue fund, accounts for taxes collected and expenditures incurred for maintenance and improvement of County infrastructure. As of September 30, 2018, the Road and Bridge fund reported ending fund balance of \$2,050,715 all of which is restricted for providing infrastructure and environmental services. This is an increase of \$535,867 compared with the prior year. The primary cause of this increase is due to the receipt of proceeds from the sale of road equipment during the year. Additionally, the fund's revenue increased by \$103,394. The increase in property taxes offset the expiration of one-time emergency funding received from the Federal Emergency Management Agency in the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$278,206. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,809,584 less than final budgeted appropriations.

CAPITAL ASSETS

Cherokee County's investment in capital assets for its governmental activities includes land, buildings, vehicles, furniture and equipment. As of September 30, 2018, the County's net investment amounts to \$8,434,045 (net of accumulated depreciation), a decrease of \$97,122 from the prior year. This decrease is attributable to depreciation expense for the year exceeding purchases of new assets.

CHEROKEE COUNTY'S CAPITAL ASSETS

	Capital Assets	
	2018	2017
Land	\$ 544,383	\$ 544,383
Buildings	12,581,299	12,577,334
Infrastructure	111,448,764	111,448,764
Improvements	2,634,555	2,631,376
Machinery and other equipment	12,081,172	11,892,749
Less: accumulated depreciation	<u>(130,856,128)</u>	<u>(130,563,439)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 8,434,045</u>	<u>\$ 8,531,167</u>

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

LONG-TERM DEBT

At September 30, 2018, the County had outstanding notes payable of \$1,341,345 of which \$807,324 was issued in the current year. Principal payments of \$434,380 were made on notes payable in the current year, and interest expense on notes payable for the year was \$27,678. 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>2018</u>	<u>2017</u>
Notes payable	\$ 1,341,345	\$ 968,401
Compensated absences	<u>265,983</u>	<u>233,872</u>
Total outstanding debt	<u>\$ 1,607,328</u>	<u>\$ 1,202,273</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2019, 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 \$421,261 of property tax revenue as compared to the fiscal year ended September 30, 2018.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cherokee County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Cherokee County Auditor, 135 S. Main Street, Rusk, Texas 75785.

**BASIC
FINANCIAL STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 5,196,811
Investments	3,093,149
Receivables, net of allowance	2,181,796
Due from other governments	133,415
Capital assets:	
Land	544,383
Buildings and improvements	12,581,299
Infrastructure	111,448,764
Improvements other than buildings	2,634,555
Equipment	12,081,172
Less: accumulated depreciation	(130,856,128)
Total capital assets	8,434,045
Total assets	19,039,216
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	950,950
Deferred outflows - OPEB	550,981
Total deferred outflows of resources	1,501,931
LIABILITIES	
Accounts payable	686,485
Accrued liabilities	463,070
Due to others	1,164,974
Unearned revenue	39,852
Noncurrent liabilities:	
Due within one year	
Long-term Debt	291,043
Total OPEB liability	280,926
Due in more than one year	
Long-term Debt	1,316,285
Net Pension liability	416,148
Total OPEB liability	7,032,459
Total liabilities	11,691,242
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	1,398,526
Total deferred inflows of resources	1,398,526
NET POSITION	
Net investment in capital assets	7,092,700
Restricted	3,247,667
Unrestricted	(2,888,988)
Total net position	\$ 7,451,379

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

CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2018

Functions/Programs	Expenses for Services	Program Revenues Fees, Fines and Charges for Services
Primary government		
Governmental activities:		
General government	\$ 5,343,575	\$ 1,296,266
Justice system	3,617,696	788,287
Public safety	3,032,382	426,375
Corrections and rehabilitation	2,563,475	142,485
Health and human services	1,168,022	155,559
Community and economic development	246,269	-
Infrastructure and environmental services	5,914,985	691,274
Interest and fiscal charges	27,678	-
Total governmental activities	<u>21,914,082</u>	<u>3,500,246</u>
Total primary government	<u>\$ 21,914,082</u>	<u>\$ 3,500,246</u>

General revenues

Taxes:

 Property taxes levied for general purposes

 Property taxes, levied for lateral roads

 Sales

 Other

Gain on disposal of capital assets

Investment income

Miscellaneous

 Total general revenues

 Change in net position

Net position, beginning

Prior period adjustment

Net position, beginning, restated

Net position, ending

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

<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Change in Primary Government Net Position</u> Governmental Activities
\$ 20,145	\$(4,027,164)
860,845	(1,968,564)
43,526	(2,562,481)
3,970	(2,417,020)
355,301	(657,162)
-	(246,269)
142,304	(5,081,407)
-	(27,678)
<u>1,426,091</u>	<u>(16,987,745)</u>
\$ <u>1,426,091</u>	<u>(16,987,745)</u>

10,336,199
4,222,935
1,808,918
22,674
366,161
161,445
326,682
<u>17,245,014</u>
257,269
<u>13,039,323</u>
<u>(5,845,213)</u>
<u>7,194,110</u>
\$ <u>7,451,379</u>

CHEROKEE COUNTY, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2018

	<u>General</u>	<u>Road and Bridge</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 3,325,148
Investments	3,036,251	-
Due from other funds	-	48,848
Receivables (net of allowance for uncollectibles)		
Taxes	1,429,885	425,194
Accounts	320,276	-
Due from other governments	10,014	-
Total assets	<u>4,796,426</u>	<u>3,799,190</u>
LIABILITIES		
Accounts payable	261,697	191,047
Accrued liabilities	345,853	62,234
Due to other funds	48,848	-
Due to others	94,974	1,070,000
Unearned revenues	39,852	-
Total liabilities	<u>791,224</u>	<u>1,323,281</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable - property taxes	1,109,158	425,194
Unavailable - court fines and fees	320,006	-
Total deferred inflows of resources	<u>1,429,164</u>	<u>425,194</u>
FUND BALANCES		
Restricted for:		
General government	-	-
Justice system	-	-
Public safety	-	-
Corrections and rehabilitation	-	-
Infrastructure and environmental services	-	2,050,715
Debt service	-	-
Assigned for:		
Health and human services	-	-
Infrastructure and environmental services	-	-
Subsequent year's budget	620,168	-
Capital projects	-	-
Unassigned	1,955,870	-
Total fund balances	<u>2,576,038</u>	<u>2,050,715</u>
Total liabilities, deferred inflows and fund balance	\$ <u>4,796,426</u>	\$ <u>3,799,190</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 1,871,663	\$ 5,196,811
56,898	3,093,149
-	48,848
6,441	1,861,520
-	320,276
<u>123,401</u>	<u>133,415</u>
<u>2,058,403</u>	<u>10,654,019</u>
233,741	686,485
54,983	463,070
-	48,848
-	1,164,974
-	39,852
<u>288,724</u>	<u>2,403,229</u>
3,907	1,538,259
-	320,006
<u>3,907</u>	<u>1,858,265</u>
11,033	11,033
1,021,638	1,021,638
57,350	57,350
42,803	42,803
-	2,050,715
64,128	64,128
224,128	224,128
303,163	303,163
-	620,168
41,529	41,529
-	1,955,870
<u>1,765,772</u>	<u>6,392,525</u>
\$ <u>2,058,403</u>	\$ <u>10,654,019</u>

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2018

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

Total fund balance - governmental funds	\$ 6,392,525
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,434,045
Some of the County's assets are not available to pay for current period expenditures and, therefore, are deferred as unavailable revenue in the funds.	1,858,265
The net pension liability and total other post employment benefits liability reported in the governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(7,085,136)
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>2,148,320</u>)
Net position of governmental activities	\$ <u>7,451,379</u>

CHEROKEE COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>General</u>	<u>Road and Bridge</u>
REVENUES		
Taxes:		
Property	\$ 10,596,479	\$ 4,323,181
Sales	1,808,918	-
Mixed beverage	22,674	-
Fees of office	881,483	843,565
Intergovernmental	314,411	136,012
Fines and forfeitures	587,039	-
Interest	128,276	20,877
Miscellaneous	44,844	281,590
Total revenues	<u>14,384,124</u>	<u>5,605,225</u>
EXPENDITURES		
Current:		
General government	4,592,133	527,557
Justice system	2,603,487	-
Public safety	2,898,651	-
Corrections and rehabilitation	2,305,680	-
Health and human services	262,376	-
Community and economic development	190,288	-
Infrastructure and environmental services	141,788	4,436,856
Capital outlay	126,969	1,177,405
Debt service:		
Principal	16,165	418,215
Interest	966	26,712
Total expenditures	<u>13,138,503</u>	<u>6,586,745</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,245,621</u>	<u>(981,520)</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(706,631)	-
Proceeds from issuance of debt	-	807,324
Proceeds from sale of assets	24,794	699,853
Proceeds from insurance	9,702	10,210
Total other financing sources (uses)	<u>(672,135)</u>	<u>1,517,387</u>
NET CHANGE IN FUND BALANCES	573,486	535,867
FUND BALANCES, BEGINNING	<u>2,002,552</u>	<u>1,514,848</u>
FUND BALANCES, ENDING	<u>\$ 2,576,038</u>	<u>\$ 2,050,715</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 1,209	\$ 14,920,869
-	1,808,918
-	22,674
951,048	2,676,096
1,185,488	1,635,911
48,570	635,609
12,292	161,445
248	326,682
<u>2,198,855</u>	<u>22,188,204</u>
114,492	5,234,182
995,872	3,599,359
-	2,898,651
89,013	2,394,693
874,441	1,136,817
-	190,288
717,607	5,296,251
16,879	1,321,253
-	434,380
-	27,678
<u>2,808,304</u>	<u>22,533,552</u>
(609,449)	(345,348)
706,631	706,631
-	(706,631)
-	807,324
-	724,647
-	19,912
<u>706,631</u>	<u>1,551,883</u>
97,182	1,206,535
<u>1,668,590</u>	<u>5,185,990</u>
\$ <u>1,765,772</u>	\$ <u>6,392,525</u>

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, 2018

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

Net change in fund balance - governmental funds	\$ 1,206,535
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.	(97,122)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(383,014)
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 position.	(807,324)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	434,380
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>96,186</u>)
Change in net position of governmental activities	\$ <u>257,269</u>

CHEROKEE COUNTY, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2018

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>2,879,494</u>
Total assets	<u>2,879,494</u>
LIABILITIES	
Due to others	<u>2,879,494</u>
Total liabilities	<u>\$ 2,879,494</u>

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

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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 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. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments. From time to time, the County invests its available funds in time deposits and other short-term interest-bearing securities. Time deposits and securities having a maturity date of three months or less from the date of issuance are classified as cash while those with a maturity of more than three months are classified as investments. Investments for the County are reported at fair value, except for the position in investment pools. All investment income is recognized as revenue in the appropriate fund's statement of activity and/or statement of revenues, expenditures, and changes in fund balance.

G. 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

H. 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 and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Changes in OPEB actuarial assumptions – this amount is amortized over a period equal to the average remaining service life of all active employees at the time of the deferral.

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.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.

I. Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by the County's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Commissioners Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners Court.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

J. Fund Balance Flow Assumption

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

K. Net Position Flow Assumption

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

L. Program Revenues

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

M. Compensated Absences

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

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

N. Property Taxes

Ad valorem taxes are levied October 1 of each year and are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes become delinquent on February 1 following the year in which levied. Taxes on real property attach as an enforceable lien on January 1 of the year in which levied and are a lien against such property until paid. The combined tax rate for the year ended September 30, 2018, was \$.5950 per \$100 and was allocated as follows:

General fund	\$ 0.4093
General fund - indigent health	0.0107
Road and bridge fund	<u>0.1750</u>
	\$ <u><u>0.5950</u></u>

O. 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 TCDRS’s Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. 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.

P. Other Post-employment Benefits (OPEB)

For purposes of measuring the total OPEB liability, OPEB related deferred outflows and inflows of resources, and OPEB expense, benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Contributions are not required but are measured as payments by the County for benefits due and payable that are not reimbursed by plan assets. Information regarding the County’s total OPEB liability is obtained from a report prepared by a consulting actuary, Gabriel Roeder Smith & Company.

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. Budgetary Information

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

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

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

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

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

<u>Fund</u>	<u>Department</u>	<u>Overage</u>
General	Justice of the peace - Pct. #2	\$ 1,075
	Justice of the peace - Pct. #4	2,843
	Constable - Pct. #3	6,295
	369th Judicial District Court	7,276
	Transfer to other funds	10,531
Road and Bridge	Precinct 1	265,354
	Precinct 4	54,500

These overages were funded with existing fund balance.

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, 2018, 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, 2018, 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	\$ 31,443	32	AAAm
Certificate of Deposit	3,093,149	101	N/A

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.

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

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

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

C. Receivables and Allowance for Uncollectible Accounts

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Taxes receivable:				
Property tax	\$ 2,049,000	\$ 785,481	\$ 7,218	\$ 2,841,699
Sales tax	315,196	-	-	315,196
Mixed beverage tax	5,531	-	-	5,531
Court fines receivable	6,362,399	-	-	6,362,399
Less: allowance for uncollectibles	(6,981,965)	(360,287)	(777)	(7,343,029)
Net accounts receivable	\$ <u>1,750,161</u>	\$ <u>425,194</u>	\$ <u>6,441</u>	\$ <u>2,181,796</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, 2018, is \$39,852, and is recorded as unearned revenue.

E. Due to Others

At September 30, 2018, the County held \$1,070,000 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, 2018, the County also held \$94,974 of the state portion of fines and fees collected for the third calendar quarter of 2018.

F. Capital Assets

Capital asset activity for the year ended September 30, 2018, is as follows:

	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
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	12,577,334	7,115	3,150	12,581,299
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,631,376	3,179	-	2,634,555
Machinery and other equipment	<u>11,892,749</u>	<u>1,671,401</u>	<u>1,482,978</u>	<u>12,081,172</u>
Total capital assets being depreciated	138,550,223	1,681,695	1,486,128	138,745,790
Less: accumulated depreciation:				
Buildings	8,651,801	287,825	3,150	8,936,476
Infrastructure	110,386,580	135,649	-	110,522,229
Improvements	1,920,314	130,710	-	2,051,024
Machinery and other equipment	<u>9,604,744</u>	<u>866,147</u>	<u>1,124,492</u>	<u>9,346,399</u>
Total capital assets being depreciated	130,563,439	1,420,331	1,127,642	130,856,128
Total depreciable assets, net	<u>7,986,784</u>	<u>261,364</u>	<u>358,486</u>	<u>7,889,662</u>
Total capital assets	<u>\$ 8,531,167</u>	<u>\$ 261,364</u>	<u>\$ 358,486</u>	<u>\$ 8,434,045</u>

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

Governmental activities:	
General government	\$ 83,232
Justice system	6,204
Public safety	268,777
Corrections and rehabilitation	157,263
Health and human services	26,405
Community and economic development	3,314
Infrastructure and environmental services	<u>875,136</u>
Total governmental activities depreciation expense	<u>\$ 1,420,331</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:

Receivable Fund	Payable Fund	Amount
Road and bridge fund	General fund	\$ 48,848
		<u>\$ 48,848</u>

Interfund transfers for the fiscal year ended September 30, 2018, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ <u>706,631</u>	Nonmajor funds	Supplement fund sources and provide local matches to grant funds
Total transfers	\$ <u><u>706,631</u></u>		

H. Long-term Liabilities

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2018.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Notes payable	\$ 968,401	\$ 807,324	\$ 434,380	\$ 1,341,345	\$ 237,846
Compensated absences	<u>233,872</u>	<u>265,882</u>	<u>233,771</u>	<u>265,983</u>	<u>53,197</u>
Total governmental activities	\$ <u><u>1,202,273</u></u>	\$ <u><u>1,073,206</u></u>	\$ <u><u>668,151</u></u>	\$ <u><u>1,607,328</u></u>	\$ <u><u>291,043</u></u>

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

Notes Payable

The notes payable outstanding at September 30, 2018, 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 \$1,677,338 are payable in monthly installments with interest of 2.20%-5.00%. Final maturity of the notes is June 15, 2021.

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 237,846	\$ 38,499	\$ 276,345
2020	442,073	32,626	474,699
2021	<u>661,426</u>	<u>20,901</u>	<u>682,327</u>
Total	\$ <u><u>1,341,345</u></u>	\$ <u><u>92,026</u></u>	\$ <u><u>1,433,371</u></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. By law, employee accounts earn 7% interest. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	164
Inactive employees entitled to but not yet receiving benefits	224
Active employees	<u>252</u>
	<u>640</u>

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

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the County were 9.75% and 9.75% in calendar years 2017 and 2018, respectively. The County’s contributions to TCDRS for the year ended September 30, 2018, were \$1,011,880, and were \$100,000 greater than the required contributions.

Net Pension Liability. The County’s Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Overall payroll growth	3.25% per year
Investment rate of return	8.0%, net of pension plan investment expense, including inflation

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

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

Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

Updated mortality assumptions were adopted in the actuarial valuation of December 31, 2017. All other actuarial assumptions that determined the total pension liability as of December 31, 2017, were based on the results of an actuarial experience study for the period January 1, 2013, through December 31, 2016.

The long-term expected rate of return on pension plan investments is 8.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TCDRS Board of Trustees.

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information below are based on January 2018 information for a 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 2016. The target allocation and best estimates of geometric real rates return for each major asset 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	11.50%	4.55%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	16.00%	7.55%
Global Equities	MSCI World (net) Index	1.50%	4.85%
International Equities - Developed	MSCI World Ex USA (net) Index	11.00%	4.55%
International Equities - Emerging	MSCI Emerging Markets (net) Index	8.00%	5.55%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.75%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	8.00%	4.12%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.06%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	2.00%	6.30%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.05%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	6.25%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	18.00%	4.10%

⁽¹⁾ Target asset allocation adopted at the April 2018 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.95% per Cliffwater's 2018 capital market assumptions.

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

⁽⁴⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

⁽⁵⁾ 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 12/31/2016	\$ 37,061,022	\$ 33,861,137	\$ 3,199,885
Changes for the year:			
Service cost	1,069,643	-	1,069,643
Interest on total pension liability ⁽¹⁾	2,996,799	-	2,996,799
Effect of economic/demographic gains or losses	(547,134)	-	(547,134)
Effect of assumptions changes	241,262	-	241,262
Refund of contributions	(177,003)	(177,003)	-
Benefit payments	(2,134,279)	(2,134,279)	-
Administrative expenses	-	(25,334)	25,334
Member contributions	-	646,390	(646,390)
Net investment income	-	4,931,858	(4,931,858)
Employer contributions	-	1,000,335	(1,000,335)
Other ⁽²⁾	-	(8,942)	8,942
Balance at 12/31/2017	<u>\$ 38,510,310</u>	<u>\$ 38,094,162</u>	<u>\$ 416,148</u>

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

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

Sensitivity Analysis

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

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 42,916,733	\$ 38,510,310	\$ 34,767,410
Fiduciary net position	<u>38,094,162</u>	<u>38,094,162</u>	<u>38,094,162</u>
Net pension liability/(asset)	<u>\$ 4,822,571</u>	<u>\$ 416,148</u>	<u>\$ (3,326,752)</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2018, the County recognized pension expense of \$665,254. At September 30, 2018, 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	\$ -	\$ 714,975
Changes in actuarial assumptions	281,528	-
Difference between projected and actual investment earnings	-	683,551
Contributions subsequent to the measurement date	<u>669,422</u>	<u>-</u>
Total	<u>\$ 950,950</u>	<u>\$ 1,398,526</u>

\$669,422 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, 2019. 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>	<u>Pension Expense Amount</u>
2019	\$(51,065)
2020	(143,227)
2021	(479,335)
2022	(443,371)

B. Other Post-employment Benefits

Plan 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits and Contributions. Upon retirement from service from the County, employees may elect to continue coverage under the County's health insurance plan. Dental and vision benefits are excluded. The County provides a \$400 monthly subsidy for that retiree that is applied toward their insurance premiums, and all other premiums must be covered by that retiree. Once the retiree is eligible for Medicare, the retiree must enroll in Medicare Part B and cannot remain on the main retiree health plan. At that time, the County provides \$300 monthly toward its Medicare supplement plan. The spouse or dependent of a retiree can receive coverage when the employee retires if the retiree elects dependent coverage at the time of retirement. The retiring employee must continue to elect (and pay for) coverage for the dependents at all future open enrollments or the dependent coverage will cease. The dependents of all future retirees can continue to receive coverage under these circumstances, assuming the current policy remains unchanged. Retirees who decide to opt-out of the healthcare plan are not eligible to opt back in at a later date.

The County's contributions to the Retiree Health Program consist of a pay-as-you-go monthly contribution of \$300-400 per participant, as well as an implicit subsidy calculated by the plan's consulting actuary. The County's contributions to the OPEB for the year ended September 30, 2018, were \$278,348, which equal benefit payments for retirees.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	55
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>216</u>
	<u><u>271</u></u>

Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

Actuarial Valuation Date	December 31, 2017
Actuarial Cost Method	Individual Entry Age
Inflation Rate	2.50%
Salary Increases	0.50% to 5.00%, not including wage inflation of 3.25%
Demographic Assumptions	Based on the experience study covering the four year period ending December 31, 2016 as conducted for the Texas County and District Retirement System (TCDRS).
Mortality	For healthy retirees, the gender-distinct RP-2014 Healthy Annuitant Mortality Tables are used with male rates multiplied by 130% and female rates multiplied by 110%. Those rates are projected on a fully generational basis based on 110% of the ultimate rates of Scale MP-2014.
Health care cost trend rates	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 14 years.
Participation rates	It was assumed that 90% of eligible retirees would choose to receive retiree health care benefits and life insurance coverage through the County.
Discount rate	The discount rate changed from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

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

A Single Discount Rate of 3.31% was used to measure the total OPEB liability. This Single Discount Rate was based on the municipal bond rates as of the measurement date. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2017.

Changes in the Total OPEB Liability

The County's total OPEB liability of \$7,313,385 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

	<u>Total OPEB Liability</u>
Balance at 12/31/2016	\$ 6,595,326
Changes for the year:	
Service cost	346,107
Interest	252,524
Changes of assumptions	400,354
Benefit payments	<u>(280,926)</u>
Net changes	<u>718,059</u>
Balance at 12/31/2017	<u>\$ 7,313,385</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.81% to 3.31%.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
Total OPEB Liability	\$ 8,225,505	\$ 7,313,385	\$ 6,544,593

Healthcare Cost Trend Rate Sensitivity Analysis

The following schedule shows the impact of the total OPEB liability if the Healthcare Cost Trend Rate used was 1% less than and 1% greater than what was used in measuring the total OPEB liability.

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
Total OPEB liability	\$ 7,176,552	\$ 7,313,385	\$ 7,477,885

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended September 30, 2018, the County recognized OPEB expense of \$654,547. At September 30, 2018, the County reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>
Changes in actuarial assumptions	\$ 344,438
Contributions subsequent to the measurement date	<u>206,543</u>
Total	<u>\$ 550,981</u>

\$206,543 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date are due to benefit payments the County paid with own assets and will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Other amounts of the reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>For the Year Ended September 30,</u>	<u>OPEB Expense Amount</u>
2019	\$ 55,916
2020	55,916
2021	55,916
2022	55,916
2023	55,916
Thereafter	64,858

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. Prior Period Adjustment – Change in Accounting Principles

During fiscal year 2018, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*, restating net position as of October 1, 2017. As a result of implementing GASB 75, the County is reporting the difference between the net OPEB obligation calculation and the total OPEB liability calculation as a reduction of the prior year net position. As such, beginning net position was restated by \$(5,845,213).

THIS PAGE LEFT BLANK INTENTIONALLY

**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, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 10,610,783	\$ 10,610,783	\$ 10,596,479	\$(14,304)
Sales	1,787,748	1,787,748	1,808,918	21,170
Mixed beverage	22,000	22,000	22,674	674
Fees of office	775,900	775,900	881,483	105,583
Intergovernmental	310,483	310,483	314,411	3,928
Fines and forfeitures	591,000	591,000	587,039	(3,961)
Interest	38,300	38,300	128,276	89,976
Miscellaneous	4,200	4,200	44,844	40,644
Proceeds from sale of assets	-	-	24,794	24,794
Proceeds from insurance	-	-	9,702	9,702
Transfers	2,059,622	2,059,622	2,059,622	-
Total revenues, as classified				
by budget	<u>16,200,036</u>	<u>16,200,036</u>	16,478,242	<u>278,206</u>
Less: other financing sources budgeted as revenues			<u>(2,094,118)</u>	
Total revenues, as classified per GAAP			<u>14,384,124</u>	
EXPENDITURES				
County auditor	272,680	272,680	242,592	30,088
Information technology	196,046	196,046	193,228	2,818
Veterans service office	98,646	98,646	85,388	13,258
Human resources	74,178	74,178	72,444	1,734
Maintenance	380,833	380,833	361,700	19,133
Agricultural agent	183,579	183,579	181,670	1,909
Tax assessor-collector	559,449	559,449	546,849	12,600
District clerk	374,583	374,583	347,560	27,023
County clerk	407,473	407,473	388,158	19,315
Elections	287,120	287,120	249,717	37,403
County treasurer	180,953	180,953	178,641	2,312
Sheriff	2,935,188	2,935,188	2,634,451	300,737
Jail	2,419,085	2,419,085	2,305,680	113,405
County judge	208,326	208,326	206,013	2,313
County attorney	381,431	381,431	358,552	22,879
District attorney	487,727	487,727	442,607	45,120
Justice of the peace - Pct. #1	117,157	117,157	115,049	2,108
Justice of the peace - Pct. #2	121,382	121,382	122,457	(1,075)
Justice of the peace - Pct. #3	140,228	140,228	119,924	20,304
Justice of the peace - Pct. #4	123,232	123,232	126,075	(2,843)
Constable - Pct. #1	76,761	76,761	75,013	1,748
Constable - Pct. #2	79,932	79,932	69,014	10,918
Constable - Pct. #3	77,564	77,564	83,859	(6,295)
Constable - Pct. #4	<u>77,720</u>	<u>77,720</u>	<u>76,650</u>	<u>1,070</u>

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, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 473,442	\$ 473,442	\$ 425,447	\$ 47,995
Court administrator -				
2nd / 369th district court	65,654	65,654	31,017	34,637
369th judicial district court	213,154	213,154	220,430	(7,276)
County court-at-law	616,417	616,417	555,598	60,819
Transfers to other funds	527,503	527,503	538,034	(10,531)
Other departmental	1,531,902	1,531,902	1,344,034	187,868
County special	421,264	421,264	382,828	38,436
County/state special	29,200	29,200	17,029	12,171
Juvenile probation	316,971	316,971	316,971	-
Emergency management	67,717	67,717	59,362	8,355
Rural addressing	23,563	23,563	23,547	16
Records management	43,000	43,000	33,787	9,213
Department of public safety	6,600	6,600	3,724	2,876
Total expenditures - sub-fund 010	<u>14,597,660</u>	<u>14,597,660</u>	<u>13,535,099</u>	<u>1,062,561</u>
Solid waste - sub-fund 021	181,014	181,014	125,993	55,021
General fund special - sub-fund 025	2,071,748	2,071,748	2,071,748	-
Indigent health - sub-fund 045	848,863	848,863	163,298	685,565
Historical commission - sub-fund 050	<u>15,055</u>	<u>15,055</u>	<u>8,618</u>	<u>6,437</u>
Total expenditures, as classified by budget	<u>17,714,340</u>	<u>17,714,340</u>	<u>15,904,756</u>	<u>1,809,584</u>
Less: other financing uses budgeted as expenditures			<u>(2,766,253)</u>	
Total expenditures, as classified per GAAP			<u>13,138,503</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>1,245,621</u>	
OTHER FINANCING SOURCES (USES)				
Transfers out			(706,631)	
Proceeds from sale of assets			24,794	
Proceeds from insurance			9,702	
Total other financing sources (uses)			<u>(672,135)</u>	
NET CHANGE IN FUND BALANCES	(1,514,304)	(1,514,304)	573,486	2,087,790
FUND BALANCES, BEGINNING	<u>2,002,552</u>	<u>2,002,552</u>	<u>2,002,552</u>	<u>-</u>
FUND BALANCES, ENDING	\$ <u>488,248</u>	\$ <u>488,248</u>	\$ <u>2,576,038</u>	\$ <u>2,087,790</u>

THIS PAGE LEFT BLANK INTENTIONALLY

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, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,333,039	\$ 4,333,039	\$ 4,323,181	\$(9,858)
Fees of office	900,000	900,000	843,565	(56,435)
Intergovernmental	48,000	61,812	136,012	74,200
Interest	16,160	16,160	20,877	4,717
Miscellaneous	<u>-</u>	<u>63,935</u>	<u>281,590</u>	<u>217,655</u>
Total revenues	<u>5,297,199</u>	<u>5,374,946</u>	<u>5,605,225</u>	<u>230,279</u>
EXPENDITURES				
Non-departmental	571,588	571,588	527,557	44,031
Precinct 1	1,383,170	1,328,581	1,593,935	(265,354)
Precinct 2	1,550,795	1,900,808	1,551,717	349,091
Precinct 3	1,185,552	1,792,342	1,127,862	664,480
Precinct 4	1,369,834	1,680,034	1,734,534	(54,500)
License and weight division	<u>60,584</u>	<u>60,584</u>	<u>51,140</u>	<u>9,444</u>
Total expenditures	<u>6,121,523</u>	<u>7,333,937</u>	<u>6,586,745</u>	<u>747,192</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(824,324)</u>	<u>(1,958,991)</u>	<u>(981,520)</u>	<u>977,471</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	807,324	807,324	807,324	-
Proceeds from sale of assets	-	382,488	699,853	317,365
Proceeds from insurance	<u>-</u>	<u>10,210</u>	<u>10,210</u>	<u>-</u>
Total other financing sources(uses)	<u>807,324</u>	<u>1,200,022</u>	<u>1,517,387</u>	<u>317,365</u>
NET CHANGE IN FUND BALANCES	<u>(17,000)</u>	<u>(758,969)</u>	<u>535,867</u>	<u>1,294,836</u>
FUND BALANCES, BEGINNING	<u>1,514,848</u>	<u>1,514,848</u>	<u>1,514,848</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,497,848</u>	<u>\$ 755,879</u>	<u>\$ 2,050,715</u>	<u>\$ 1,294,836</u>

CHEROKEE COUNTY, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS**

SEPTEMBER 30, 2018

Measurement Date December 31	2014	2015
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	<u>(1,892,238)</u>	<u>(2,039,552)</u>
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.

<u>2016</u>	<u>2017</u>
\$ 1,187,975	\$ 1,069,643
2,844,319	2,996,799
-	-
-	241,262
(445,927)	(547,134)
(<u>2,075,536</u>)	(<u>2,311,283</u>)
1,510,831	1,449,287
<u>35,550,192</u>	<u>37,061,023</u>
\$ <u>37,061,023</u>	\$ <u>38,510,310</u>
\$ 1,013,384	\$ 1,000,335
655,757	646,390
2,371,928	4,931,858
(2,075,536)	(2,311,282)
(25,760)	(25,334)
(<u>144,899</u>)	(<u>8,943</u>)
1,794,874	4,233,024
<u>32,066,265</u>	<u>33,861,138</u>
\$ <u>33,861,138</u>	\$ <u>38,094,162</u>
\$ <u>3,199,885</u>	\$ <u>416,148</u>
91.37%	98.92%
\$ 9,367,951	\$ 9,234,147
34.16%	4.51%

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2018

<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%
2017	900,667	1,000,667	(100,000)	9,367,951	10.7%
2018	911,880	1,011,880	(100,000)	9,234,147	11.0%

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 PENSION CONTRIBUTIONS

SEPTEMBER 30, 2018

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	7.0 years (based on contribution rate calculated in 12/31/2017 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Assumptions Reflected in the Schedule*	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.

*Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to the Schedule.

CHEROKEE COUNTY, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

RETIREE HEALTH CARE PLAN

Measurement Date December 31,	<u>2017</u>
A. Total OPEB liability	
Service Cost	\$ 346,107
Interest (on the Total OPEB Liability)	252,524
Changes of assumptions	400,354
Benefit payments, including refunds of employee contributions	<u>(280,926)</u>
Net change in Total OPEB liability	718,059
Total OPEB liability - beginning	<u>6,595,326</u>
Total OPEB liability - ending (a)	<u>7,313,385</u>
B. Covered-employee payroll	\$ 9,234,147
C. Total OPEB liability as a percentage of covered-employee payroll	79.20%

Note: This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

Note: No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Note: Changes in assumptions reflect annual change in the discount rate.

**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	Special Revenue		
	County Health Unit	Airport	Grant
ASSETS			
Cash and cash equivalents	\$ 206,034	\$ 309,464	\$ 880,692
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Due from other governments	32,217	-	-
Total assets	\$ 238,251	\$ 309,464	\$ 880,692
LIABILITIES			
Accounts payable	\$ 24,629	\$ 2,143	\$ 7,999
Accrued liabilities	21,952	4,158	6,311
Total liabilities	46,581	6,301	14,310
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted for:			
General government	-	-	11,033
Justice system	-	-	855,349
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Debt service	-	-	-
Assigned for:			
Health and human services	191,670	-	-
Infrastructure and environmental services	-	303,163	-
Capital projects	-	-	-
Total fund balances	191,670	303,163	866,382
Total liabilities, deferred inflows and fund balances	\$ 238,251	\$ 309,464	\$ 880,692

CHEROKEE COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	Special Revenue		
	Constables LEF Special	State Hospital/ MHMR	CDBG
ASSETS			
Cash and cash equivalents	\$ 16,430	\$ 32,458	\$ 97,058
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Due from other governments	-	-	91,184
Total assets	\$ 16,430	\$ 32,458	\$ 188,242
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 188,242
Accrued liabilities	-	-	-
Total liabilities	-	-	188,242
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted for:			
General government	-	-	-
Justice system	-	-	-
Public safety	16,430	-	-
Corrections and rehabilitation	-	-	-
Debt service	-	-	-
Assigned for:			
Health and human services	-	32,458	-
Infrastructure and environmental services	-	-	-
Capital projects	-	-	-
Total fund balances	16,430	32,458	-
Total liabilities, deferred inflows and fund balances	\$ 16,430	\$ 32,458	\$ 188,242

Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 4,696	\$ 41,529	\$ 1,871,663
56,898	-	56,898
6,441	-	6,441
-	-	123,401
<u>\$ 68,035</u>	<u>\$ 41,529</u>	<u>\$ 2,058,403</u>
\$ -	\$ -	\$ 233,741
-	-	54,983
-	-	288,724
3,907	-	3,907
<u>3,907</u>	<u>-</u>	<u>3,907</u>
-	-	11,033
-	-	1,021,638
-	-	57,350
-	-	42,803
64,128	-	64,128
-	-	224,128
-	-	303,163
-	41,529	41,529
<u>64,128</u>	<u>41,529</u>	<u>1,765,772</u>
<u>\$ 68,035</u>	<u>\$ 41,529</u>	<u>\$ 2,058,403</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue		
	County Health Unit	Airport	Grant
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	166,394	440,946	199,285
Intergovernmental	344,466	6,293	85,889
Fines and forfeitures	-	-	37,793
Interest	3,195	3,282	21
Miscellaneous	229	-	-
Total revenues	514,284	450,521	322,988
EXPENDITURES			
Current:			
General government	-	-	114,492
Justice system	-	-	207,293
Corrections and rehabilitation	-	-	-
Health and human services	858,087	-	-
Infrastructure and environmental services	-	496,953	-
Capital outlay	-	-	-
Total expenditures	858,087	496,953	321,785
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(343,803)	(46,432)	1,203
OTHER FINANCING SOURCES (USES)			
Transfers in	318,531	131,629	-
Total other financing sources and uses	318,531	131,629	-
NET CHANGE IN FUND BALANCES	(25,272)	85,197	1,203
FUND BALANCES, BEGINNING	216,942	217,966	865,179
FUND BALANCES, ENDING	\$ 191,670	\$ 303,163	\$ 866,382

Special Revenue

Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	108,682	-	-
3,450	524,736	-	-	-
-	3,011	-	5,647	1,937
207	3,528	-	-	-
-	19	-	-	-
<u>3,657</u>	<u>531,294</u>	<u>108,682</u>	<u>5,647</u>	<u>1,937</u>
-	-	-	-	-
-	785,383	-	3,196	-
-	-	89,013	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>785,383</u>	<u>89,013</u>	<u>3,196</u>	<u>-</u>
<u>3,657</u>	<u>(254,089)</u>	<u>19,669</u>	<u>2,451</u>	<u>1,937</u>
-	256,471	-	-	-
-	256,471	-	-	-
3,657	2,382	19,669	2,451	1,937
<u>16,997</u>	<u>134,889</u>	<u>23,134</u>	<u>26,567</u>	<u>18,329</u>
<u>\$ 20,654</u>	<u>\$ 137,271</u>	<u>\$ 42,803</u>	<u>\$ 29,018</u>	<u>\$ 20,266</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Special Revenue		
	Constables LEF Special	State Hospital/ MHMR	CDBG
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	-	35,741	-
Intergovernmental	-	-	220,654
Fines and forfeitures	182	-	-
Interest	-	-	-
Miscellaneous	-	-	-
Total revenues	<u>182</u>	<u>35,741</u>	<u>220,654</u>
EXPENDITURES			
Current:			
General government	-	-	-
Justice system	-	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	16,354	-
Infrastructure and environmental services	-	-	220,654
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>16,354</u>	<u>220,654</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>182</u>	<u>19,387</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	182	19,387	-
FUND BALANCES, BEGINNING	<u>16,248</u>	<u>13,071</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 16,430</u>	<u>\$ 32,458</u>	<u>\$ -</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental</u>
\$ 1,209	\$ -	\$ 1,209
-	-	951,048
-	-	1,185,488
-	-	48,570
1,146	913	12,292
-	-	248
<u>2,355</u>	<u>913</u>	<u>2,198,855</u>
-	-	114,492
-	-	995,872
-	-	89,013
-	-	874,441
-	-	717,607
-	16,879	16,879
<u>-</u>	<u>16,879</u>	<u>2,808,304</u>
<u>2,355</u>	<u>(15,966)</u>	<u>(609,449)</u>
<u>-</u>	<u>-</u>	<u>706,631</u>
<u>-</u>	<u>-</u>	<u>706,631</u>
2,355	(15,966)	97,182
<u>61,773</u>	<u>57,495</u>	<u>1,668,590</u>
<u>\$ 64,128</u>	<u>\$ 41,529</u>	<u>\$ 1,765,772</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPLIANCE SECTION

THIS PAGE LEFT BLANK INTENTIONALLY

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

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, 2018, 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 28, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
June 28, 2019