

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

TABLE OF CONTENTS

	<u>Page Number</u>
INTRODUCTORY SECTION	
Principal Officials	i
FINANCIAL SECTION	
Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 8
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10 – 11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Fiduciary Assets and Liabilities	16
Notes to Financial Statements	17 – 34
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance of General Fund – Budget and Actual	35 – 36
Schedule of Revenues, Expenditures and Changes in Fund Balance of Road and Bridge – Budget and Actual	37
Schedule of Changes in Net Pension Liability and Related Ratios	38 – 39
Schedule of Employer Pension Contributions	40
Notes to Schedule of Employer Pension Contributions	41

Schedule Changes in Total OPEB Liability and Related Ratios – Retiree Health Program.....	42
--	----

Combining Fund Financial Statements - Nonmajor Governmental Funds

Combining Balance Sheet.....	43 – 46
------------------------------	---------

Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	47 – 50
--	---------

COMPLIANCE SECTION

Independent Auditor’s 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>	51 – 52
--	---------

INTRODUCTORY SECTION

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2019

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Patrick Reagan

Billy McCutcheon

COUNTY AUDITOR

Steven Daughety

THIS PAGE LEFT BLANK INTENTIONALLY

FINANCIAL SECTION

THIS PAGE LEFT BLANK INTENTIONALLY



INDEPENDENT AUDITOR'S REPORT

Honorable County 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, 2019, 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County, Texas, as of September 30, 2019, 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.

OFFICE LOCATIONS

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

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 18, 2020, 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 18, 2020

**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, 2019. 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 \$5,005,472 (net position). Of this amount, \$5,977,666 is a deficit of unrestricted net position.
- The County's total net position (government-wide) decreased by \$2,853,724 due to operations. The primary cause for this decrease was an increase in general government expenses and a decrease in gain on disposal of capital assets and miscellaneous revenue compared to the prior year.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$8,000,484, an increase of \$1,200,142 in comparison with the prior year. Approximately 52% of this total amount, \$4,184,657, is available for spending at the County's discretion (unassigned and assigned fund balance). The primary cause of this increase was an increase in property tax revenue.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,019,558 or 22% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) increased by \$5,986,916 during the current fiscal year. The primary cause of this increase was an increase in the County's total OPEB liability during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets and deferred outflows exceeded liabilities and deferred inflows by \$5,005,472 as of September 30, 2019.

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	
	2019	2018
Current and other assets	\$ 12,187,681	\$ 10,605,171
Capital assets	7,822,264	8,434,045
Total assets	20,009,945	19,039,216
Deferred outflows - pensions	3,013,120	950,950
Deferred outflows - OPEB	548,609	550,981
Total deferred outflows of resources	3,561,729	1,501,931
Long-term liabilities	15,323,777	9,336,861
Other liabilities	2,303,552	2,354,381
Total liabilities	17,627,329	11,691,242
Deferred inflows - pensions	432,649	1,398,526
Deferred inflows - OPEB	506,224	-
Total deferred inflows of resources	938,873	1,398,526
Net position:		
Net investment in capital assets	6,718,765	7,092,700
Restricted	4,264,373	3,247,667
Unrestricted	(5,977,666)	(2,888,988)
Total net position	\$ 5,005,472	\$ 7,451,379

Governmental Activities. Governmental activities decreased Cherokee County's net position by \$2,853,724. A key element of this decrease in net position was a \$4,576,507 or 7% increase in fiscal year 2019 expenses as compared to fiscal year 2018. The increase was composed primarily of General Government, Justice System, and Public Safety expense increases, which were caused primarily by increases to the County's total pension and OPEB expenses for the year. Total revenues increased by \$1,161,062, primarily driven by an increase of \$1,041,555 in property tax revenue.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2019	2018
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 3,638,180	\$ 3,500,246
Operating grants and contributions	1,787,199	1,426,091
General revenues:		
Property taxes	15,600,857	14,559,134
Sales and other taxes	1,986,702	1,831,592
Gain on disposal of capital assets	144,932	366,161
Investment income	319,555	161,445
Miscellaneous	159,440	326,682
Total revenues	23,636,865	22,171,351
EXPENSES		
General government	6,913,136	5,343,575
Justice system	4,561,192	3,617,696
Public safety	3,882,312	3,032,382
Corrections and rehabilitation	2,983,564	2,563,475
Health and human services	1,511,219	1,168,022
Community and economic development	190,772	246,269
Infrastructure and environmental	6,409,895	5,914,985
Interest and fiscal charges	38,499	27,678
Total expenses	26,490,589	21,914,082
INCREASE (DECREASE) IN NET POSITION	(2,853,724)	257,269
NET POSITION, BEGINNING	7,451,379	13,039,323
PRIOR PERIOD ADJUSTMENT	407,817	(5,845,213)
NET POSITION, BEGINNING, RESTATED	7,859,196	7,194,110
NET POSITION, ENDING	\$ 5,005,472	\$ 7,451,379

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 \$8,000,484 which is an increase of \$1,200,142 from last year's total of \$6,392,525.

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 \$3,019,558. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance both represent 22% of the total General Fund expenditures. Additionally, revenues increased primarily because of increases to property tax revenue that covered expenditures, which increased from the 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, 2019, the Road and Bridge fund reported ending fund balance of \$2,317,422 all of which is restricted for providing infrastructure and environmental services. This is an increase of \$266,707 compared with the prior year. The primary cause of this increase is due to the decrease in capital outlay expenditures during the year. Additionally, the fund's revenue increased by \$142,161.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$948,097. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,512,804 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, 2019, the County's net investment amounts to \$7,822,264 (net of accumulated depreciation), a decrease of \$611,781 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	
	2019	2018
Land	\$ 544,383	\$ 544,383
Buildings	12,581,299	12,581,299
Infrastructure	111,448,764	111,448,764
Improvements	2,634,555	2,634,555
Machinery and other equipment	12,477,811	12,081,172
Less: accumulated depreciation	<u>(131,864,548)</u>	<u>(130,856,128)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 7,822,264</u>	<u>\$ 8,434,045</u>

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

LONG-TERM DEBT

At September 30, 2019, the County had outstanding notes payable of \$1,103,499. Principal payments of \$237,846 were made on notes payable in the current year, and interest expense on notes payable for the year was \$38,499. Additional information on the County's long-term debt can be found in the notes to the financial statements.

CHEROKEE COUNTY'S OUTSTANDING DEBT

	2019	2018
Notes payable	\$ 1,103,499	\$ 1,341,345
Compensated absences	<u>261,131</u>	<u>265,983</u>
Total outstanding debt	<u>\$ 1,364,630</u>	<u>\$ 1,607,328</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2020, 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 \$638,752 of property tax revenue as compared to the fiscal year ended September 30, 2019.

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, 2019

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 6,421,261
Investments	3,234,094
Prepaid items	6,469
Due from fiduciary fund	2,576
Receivables, net of allowance	2,481,050
Due from other governments	42,231
Capital assets:	
Land	544,383
Buildings and improvements	12,581,299
Infrastructure	111,448,764
Improvements other than buildings	2,634,555
Equipment	12,477,811
Less: accumulated depreciation	(131,864,548)
Total capital assets	7,822,264
Total assets	20,009,945
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	3,013,120
Deferred outflows - OPEB	548,609
Total deferred outflows of resources	3,561,729
 LIABILITIES	
Accounts payable	633,955
Accrued liabilities	423,159
Due to others	1,219,870
Unearned revenue	26,568
Noncurrent liabilities:	
Due within one year	
Long-term debt	494,297
Total OPEB liability	281,057
Due in more than one year	
Long-term debt	870,333
Net pension liability	3,610,868
Total OPEB liability	10,067,222
Total liabilities	17,627,329
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	432,649
Deferred inflows - OPEB	506,224
Total deferred inflows of resources	938,873
 NET POSITION	
Net investment in capital assets	6,718,765
Restricted	4,264,373
Unrestricted	(5,977,666)
Total net position	\$ 5,005,472

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

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2019

Functions/Programs	Expenses for Services	Program Revenues Fees, Fines and Charges for Services
Primary government		
Governmental activities:		
General government	\$ 6,913,136	\$ 1,179,372
Justice system	4,561,192	834,325
Public safety	3,882,312	368,263
Corrections and rehabilitation	2,983,564	132,149
Health and human services	1,511,219	130,767
Community and economic development	190,772	-
Infrastructure and environmental services	6,409,895	993,304
Interest and fiscal charges	38,499	-
Total governmental activities	<u>26,490,589</u>	<u>3,638,180</u>
Total primary government	\$ <u>26,490,589</u>	\$ <u>3,638,180</u>
General revenues		
Taxes:		
Property taxes levied for general purposes		
Property taxes, levied for lateral roads		
Property taxes, levied for debt service		
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, as restated		
Net position, ending		

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

<u>Program Revenues</u>	<u>Net (Expense) Revenue and Change in Primary Government Net Position</u>
<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
\$ 15,636	\$(5,718,128)
977,847	(2,749,020)
69,143	(3,444,906)
5,884	(2,845,531)
638,207	(742,245)
-	(190,772)
80,482	(5,336,109)
-	(38,499)
<u>1,787,199</u>	<u>(21,065,210)</u>
<u>\$ 1,787,199</u>	<u>(21,065,210)</u>

11,074,992
4,525,697
168
1,963,479
23,223
144,932
319,555
159,440
<u>18,211,486</u>
(2,853,724)
<u>7,451,379</u>
<u>407,817</u>
<u>7,859,196</u>
<u>\$ 5,005,472</u>

CHEROKEE COUNTY, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 597,395	\$ 3,774,338	\$ 2,049,528	\$ 6,421,261
Investments	3,172,200	-	61,894	3,234,094
Prepaid items	6,469	-	-	6,469
Due from other funds	2,576	-	-	2,576
Receivables (net of allowance for uncollectibles)				
Taxes	1,619,042	489,282	5,528	2,113,852
Accounts	367,198	-	-	367,198
Due from other governments	10,014	-	32,217	42,231
Total assets	<u>5,774,894</u>	<u>4,263,620</u>	<u>2,149,167</u>	<u>12,187,681</u>
LIABILITIES				
Accounts payable	280,890	300,888	52,177	633,955
Accrued liabilities	307,798	63,813	51,548	423,159
Due to others	89,870	1,130,000	-	1,219,870
Unearned revenues	26,568	-	-	26,568
Total liabilities	<u>705,126</u>	<u>1,494,701</u>	<u>103,725</u>	<u>2,303,552</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable - property taxes	1,085,040	451,497	3,518	1,540,055
Unavailable - court fines and fees	343,590	-	-	343,590
Total deferred inflows of resources	<u>1,428,630</u>	<u>451,497</u>	<u>3,518</u>	<u>1,883,645</u>
FUND BALANCES				
Nonspendable - prepaid items	6,469	-	-	6,469
Restricted for:				
General government	-	-	11,537	11,537
Justice system	-	-	729,105	729,105
Public safety	-	-	73,474	73,474
Corrections and rehabilitation	-	-	54,146	54,146
Health and human services	-	-	557,951	557,951
Infrastructure and environmental services	-	2,317,422	-	2,317,422
Debt service	-	-	65,723	65,723
Assigned for:				
Health and human services	-	-	200,158	200,158
Infrastructure and environmental services	-	-	316,593	316,593
Subsequent year's budget	615,111	-	-	615,111
Capital projects	-	-	33,237	33,237
Unassigned	3,019,558	-	-	3,019,558
Total fund balances	<u>3,641,138</u>	<u>2,317,422</u>	<u>2,041,924</u>	<u>8,000,484</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 5,774,894</u>	<u>\$ 4,263,620</u>	<u>\$ 2,149,167</u>	<u>\$ 12,187,681</u>

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

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2019

Total fund balance - governmental funds	\$ 8,000,484
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,822,264
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.	1,883,645
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.	(11,336,291)
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	(<u>1,364,630</u>)
Net position of governmental activities	\$ <u>5,005,472</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 11,073,196	\$ 4,525,697	\$ 168	\$ 15,599,061
Sales	1,963,479	-	-	1,963,479
Mixed beverage	23,223	-	-	23,223
Fees of office	872,380	1,031,554	917,766	2,821,700
Intergovernmental	341,587	74,139	1,413,852	1,829,578
Fines and forfeitures	637,300	-	113,217	750,517
Interest	227,860	63,250	28,445	319,555
Miscellaneous	106,694	52,746	-	159,440
Total revenues	<u>15,245,719</u>	<u>5,747,386</u>	<u>2,473,448</u>	<u>23,466,553</u>
EXPENDITURES				
Current:				
General government	4,737,120	538,900	520,876	5,796,896
Justice system	2,743,703	-	1,031,748	3,775,451
Public safety	3,022,113	-	42,305	3,064,418
Corrections and rehabilitation	2,305,771	-	86,140	2,391,911
Health and human services	312,535	-	955,818	1,268,353
Community and economic development	191,760	-	-	191,760
Infrastructure and environmental services	119,678	4,386,445	568,507	5,074,630
Capital outlay	137,535	373,291	69,226	580,052
Debt service:				
Principal	17,177	220,669	-	237,846
Interest	210	38,289	-	38,499
Total expenditures	<u>13,587,602</u>	<u>5,557,594</u>	<u>3,274,620</u>	<u>22,419,816</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,658,117</u>	<u>189,792</u>	<u>(801,172)</u>	<u>1,046,737</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	729,507	729,507
Transfers out	(669,507)	-	(60,000)	(729,507)
Proceeds from sale of assets	29,975	334	-	30,309
Insurance recoveries	46,515	76,581	-	123,096
Total other financing sources (uses)	<u>(593,017)</u>	<u>76,915</u>	<u>669,507</u>	<u>153,405</u>
NET CHANGE IN FUND BALANCES	1,065,100	266,707	(131,665)	1,200,142
FUND BALANCES, BEGINNING	<u>2,576,038</u>	<u>2,050,715</u>	<u>1,765,772</u>	<u>6,392,525</u>
PRIOR PERIOD ADJUSTMENT	-	-	407,817	407,817
FUND BALANCES, BEGINNING, RESTATED	<u>2,576,038</u>	<u>2,050,715</u>	<u>2,173,589</u>	<u>6,800,342</u>
FUND BALANCES, ENDING	<u>\$ 3,641,138</u>	<u>\$ 2,317,422</u>	<u>\$ 2,041,924</u>	<u>\$ 8,000,484</u>

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

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Net change in fund balance - governmental funds	\$ 1,200,142
Amounts reported for governmental activities in the statement of activities are different because:	
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.	(611,781)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	25,380
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	237,846
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>3,705,311</u>)
Change in net position of governmental activities	\$(<u>2,853,724</u>)

CHEROKEE COUNTY, TEXAS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

SEPTEMBER 30, 2019

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>2,443,279</u>
Total assets	<u>2,443,279</u>
LIABILITIES	
Due to others	<u>2,443,279</u>
Total liabilities	<u>\$ 2,443,279</u>

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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 and certificates of deposit. 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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

H. Capital Assets

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

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

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

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

I. Deferred Outflows/Inflows of Resources

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

- Pension 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 actuarial experience on pension and OPEB liabilities, and changes in OPEB actuarial assumptions – 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.

J. Fund Balance Classification

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

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

K. Fund Balance Flow Assumption

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

L. Net Position Flow Assumption

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

M. Program Revenues

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

N. Compensated Absences

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

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

O. Property Taxes

Ad valorem taxes are levied October 1 of each year and are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes become delinquent on February 1 following the year in which levied. Taxes on real property attach as an enforceable lien on January 1 of the year in which levied and are a lien against such property until paid. The combined tax rate for the year ended September 30, 2019, 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>0.5950</u>

P. Pensions

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

Q. 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.

R. 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	Tax assessor-collector	\$ 1,826
	Justice of the peace - Pct. #1	3,375
	Justice of the peace - Pct. #4	1,605
	369th Judicial District Court	18,805
	Records management	23,455
	Department of public safety	1,780
	General fund special	44,307
	Historical commission	1,109

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, 2019, 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, 2019, the County had the following investments:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Valuation Method</u>	<u>Weighted Average Maturity (days)</u>	<u>S&P Rating</u>
TexStar	\$ 32,178	Net asset value	20	AAAm
Certificate of Deposit	3,164,677	Historical cost	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	\$ 2,111,690	\$ 876,935	\$ 6,305	\$ 2,994,930
Sales tax	435,304	-	-	435,304
Mixed beverage tax	5,531	-	-	5,531
Court fines receivable	6,871,810	-	-	6,871,810
Accounts receivable	23,608	-	-	23,608
Less: allowance for uncollectibles	(7,461,703)	(387,653)	(777)	(7,850,133)
Net accounts receivable	\$ <u>1,986,240</u>	\$ <u>489,282</u>	\$ <u>5,528</u>	\$ <u>2,481,050</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, 2019, is \$26,568, and is recorded as unearned revenue.

E. Due to Others

At September 30, 2019, the County held \$1,130,000 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, 2019, the County also held \$89,870 of the state portion of fines and fees collected for the third calendar quarter of 2019.

F. Capital Assets

Capital asset activity for the year ended September 30, 2019, is as follows:

	Beginning Balance	Additions	Deletions	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	12,581,299	-	-	12,581,299
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,634,555	-	-	2,634,555
Machinery and other equipment	<u>12,081,172</u>	<u>649,603</u>	<u>252,964</u>	<u>12,477,811</u>
Total capital assets being depreciated	138,745,790	649,603	252,964	139,142,429
Less: accumulated depreciation:				
Buildings	8,936,476	201,951	-	9,138,427
Infrastructure	110,522,229	135,649	-	110,657,878
Improvements	2,051,024	130,696	-	2,181,720
Machinery and other equipment	<u>9,346,399</u>	<u>784,615</u>	<u>244,491</u>	<u>9,886,523</u>
Total capital assets being depreciated	130,856,128	1,252,911	244,491	131,864,548
Total depreciable assets, net	<u>7,889,662</u>	<u>(603,308)</u>	<u>8,473</u>	<u>7,277,881</u>
Total capital assets	<u>\$ 8,434,045</u>	<u>\$ (603,308)</u>	<u>\$ 8,473</u>	<u>\$ 7,822,264</u>

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

Governmental activities:	
General government	\$ 78,754
Justice system	10,681
Public safety	175,779
Corrections and rehabilitation	158,932
Health and human services	22,321
Community and economic development	3,707
Infrastructure and environmental services	<u>802,737</u>
Total governmental activities depreciation expense	<u>\$ 1,252,911</u>

G. Interfund Balances and Transfers

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Agency fund	\$ <u>2,576</u>
		\$ <u><u>2,576</u></u>

Interfund transfers for the fiscal year ended September 30, 2019, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ 669,507	Nonmajor funds	Supplement fund sources and provide local matches to grant funds
Nonmajor funds	<u>60,000</u>	Nonmajor funds	Draw allowed administrative cost allowance from Local Provider Participation Funds
Total transfers	\$ <u><u>729,507</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, 2019.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Notes payable - direct borrowing	\$ 1,341,345	\$ -	\$ 237,846	\$ 1,103,499	\$ 442,071
Compensated absences	<u>265,983</u>	<u>248,370</u>	<u>253,222</u>	<u>261,131</u>	<u>52,226</u>
Total governmental activities	\$ <u><u>1,607,328</u></u>	\$ <u><u>248,370</u></u>	\$ <u><u>491,068</u></u>	\$ <u><u>1,364,630</u></u>	\$ <u><u>494,297</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, 2019, were issued for the purpose of obtaining road and bridge equipment and a server for the courthouse. The notes are classified as direct borrowings and 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>
2020	\$ 442,071	\$ 32,626	\$ 474,697
2021	<u>661,428</u>	<u>20,901</u>	<u>682,329</u>
Total	\$ <u><u>1,103,499</u></u>	\$ <u><u>53,527</u></u>	\$ <u><u>1,157,026</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, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	180
Inactive employees entitled to but not yet receiving benefits	231
Active employees	<u>233</u>
	<u>644</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 rate for the County was 9.75% in calendar years 2018 and 2019.

The County's contributions to TCDRS for the year ended September 30, 2019, were \$1,029,828, 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, 2018, 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, 2018, 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

The actuarial assumptions that determined the Total Pension Liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013, through December 31, 2016, except for mortality assumptions.

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 2019 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 2017. 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	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities - Developed	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities - Emerging	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

⁽¹⁾ Target asset allocation adopted at the April 2019 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return in addition to assumed inflation of 1.70% per Cliffwater's 2019 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 12/31/2017	\$ 38,510,310	\$ 38,094,162	\$ 416,148
Changes for the year:			
Service cost	1,067,128	-	1,067,128
Interest on total pension liability ⁽¹⁾	3,100,722	-	3,100,722
Effect of economic/demographic gains or losses	(71,400)	-	(71,400)
Effect of assumptions changes	-	-	-
Refund of contributions	(189,232)	(189,232)	-
Benefit payments	(2,456,114)	(2,456,114)	-
Administrative expenses	-	(29,197)	29,197
Member contributions	-	658,824	(658,824)
Net investment income	-	(720,508)	720,508
Employer contributions	-	1,017,651	(1,017,651)
Other ⁽²⁾	-	(25,040)	25,040
Balance at 12/31/2018	<u>\$ 39,961,414</u>	<u>\$ 36,350,546</u>	<u>\$ 3,610,868</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	\$ 44,494,574	\$ 39,961,414	\$ 36,111,710
Fiduciary net position	<u>36,350,546</u>	<u>36,350,546</u>	<u>36,350,546</u>
Net pension liability/(asset)	<u>\$ 8,144,028</u>	<u>\$ 3,610,868</u>	<u>\$ (238,836)</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, 2019, the County recognized pension expense of \$1,196,500. At September 30, 2019, 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	\$ -	\$ 432,649
Changes in actuarial assumptions	120,630	-
Difference between projected and actual investment earnings	2,210,890	-
Contributions subsequent to the measurement date	<u>681,600</u>	<u>-</u>
Total	<u>\$ 3,013,120</u>	<u>\$ 432,649</u>

\$681,600 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, 2020. 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>
2020	\$ 586,074
2021	249,966
2022	309,730
2023	753,101

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. These contributions of \$300/\$400 are adjusted annually to cover a certain portion of premium increases related to healthcare cost inflation. The County’s OPEB contributions also include an implicit subsidy calculated by the plan’s consulting actuary. For the year ended September 30, 2019, contributions by the County were \$334,601, which equal benefit payments to retirees.

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 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 6.90% declining to an ultimate rate of 4.25% after 13 years. The County's explicit subsidies were assumed to increase at the same rate as inflation. Due to the change in benefit terms, the health care trend rate assumption for subsidies were changed from no assumed future increases to increases consistent with inflation.
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 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

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 3.71% 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, 2018.

Changes in the Total OPEB Liability

The County's total OPEB liability of \$10,348,279 was measured as of December 31, 2018 and was determined by an actuarial valuation as of December 31, 2017.

	<u>Total OPEB Liability</u>
Balance at 12/31/2017	\$ 7,313,385
Changes for the year:	
Service cost	393,049
Interest	243,927
Changes of benefit terms	3,267,379
Difference between expected and actual experience of the total OPEB liability	(13,070)
Changes of assumptions	(575,334)
Benefit payments	<u>(281,057)</u>
Net changes	<u>3,034,894</u>
Balance at 12/31/2018	<u>\$ 10,348,279</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.31% to 3.71%.

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 (3.71%) in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
Total OPEB Liability	\$ 11,878,866	\$ 10,348,279	\$ 9,092,979

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	\$ 9,024,437	\$ 10,348,279	\$ 12,022,782

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2019, the County recognized OPEB expense of \$3,878,091. At September 30, 2019, the County reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 11,245
Changes in actuarial assumptions	288,522	494,979
Contributions subsequent to the measurement date	<u>260,087</u>	<u>-</u>
Total	<u>\$ 548,609</u>	<u>\$ 506,224</u>

\$260,087 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, 2020. Other amounts of the reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	OPEB Expense Amount
2020	\$(26,264)
2021	(26,264)
2022	(26,264)
2023	(26,264)
2024	(26,264)
Thereafter	(86,382)

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. New Accounting Standards

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the County include the following:

Statement No. 84, *Fiduciary Activities* – This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus is generally on whether a government is controlling the assets of the fiduciary activity and on the beneficiaries with whom a fiduciary relationship exists. This Statement will become effective for the County in fiscal year 2021.

Statement No. 87, *Leases* – This Statement will improve the accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities previously classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. Under the Statement a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resource, enhancing the relevance and consistency of information about leasing activities. This Statement will become effective for the County in fiscal year 2022.

F. Prior Period Adjustment

During the year ended September 30, 2019, management determined that the nature of the Local Provider Participation Fund, a nonmajor special revenue fund, was more appropriately classified as governmental activities rather than fiduciary activities. The recognition of the Fund's beginning fund balance of \$407,817 increased beginning governmental fund balance and also resulted in a corresponding increase to the beginning net position of the governmental activities of \$407,817.

G. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a Public Health Emergency of International Concern and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively affect the County's operations, suppliers or other vendors, as well as intergovernmental entities and citizens it collects fees from. Subsequent shelter in place orders, labor shortages or other disruptions to the County's operations, or that of its suppliers and vendors, may adversely affect the County's ability to provide services to citizens and taxpayers. In addition, the epidemic and its effects could result in a widespread health crisis that may lead to an economic downturn, negatively affecting tax revenues, demand for services, and the value of investments including pension assets. As of the date of this report, the impact of COVID-19 on the County's financial statements or operations cannot be determined. The extent to which COVID-19 may affect the County's results will depend on future developments, which are highly uncertain.

**REQUIRED
SUPPLEMENTARY INFORMATION**

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 10,874,748	\$ 10,874,748	\$ 11,073,196	\$ 198,448
Sales	1,737,441	1,737,441	1,963,479	226,038
Mixed beverage	18,000	18,000	23,223	5,223
Fees of office	774,500	774,500	872,380	97,880
Intergovernmental	301,290	301,290	341,587	40,297
Fines and forfeitures	591,400	625,747	637,300	11,553
Interest	48,500	48,500	227,860	179,360
Miscellaneous	20,850	20,850	106,694	85,844
Proceeds from sale of assets	-	-	29,975	29,975
Insurance recoveries	-	17,343	46,515	29,172
Transfers	1,987,155	1,987,155	2,031,462	44,307
Total revenues, as classified by budget	<u>16,353,884</u>	<u>16,405,574</u>	17,353,671	<u>948,097</u>
Less: other financing sources budgeted as revenues			<u>(2,107,952)</u>	
Total revenues, as classified per GAAP			<u>15,245,719</u>	
EXPENDITURES				
County auditor	270,382	270,382	258,125	12,257
Information technology	204,364	204,364	201,031	3,333
Veterans service office	96,638	96,638	91,379	5,259
Human resources	77,324	77,324	76,776	548
Maintenance	380,468	380,468	365,753	14,715
Agricultural agent	187,460	187,460	175,596	11,864
Tax assessor-collector	561,669	561,669	563,495	(1,826)
District clerk	379,585	379,585	356,863	22,722
County clerk	414,055	414,055	394,662	19,393
Elections	376,870	376,870	213,062	163,808
County treasurer	182,606	182,606	178,525	4,081
Sheriff	2,912,992	2,964,682	2,758,666	206,016
Jail	2,410,567	2,410,567	2,305,771	104,796
County judge	212,598	212,598	210,937	1,661
County attorney	386,478	386,478	379,528	6,950
District attorney	490,227	490,227	472,104	18,123
Justice of the peace - Pct. #1	116,675	116,675	120,050	(3,375)
Justice of the peace - Pct. #2	126,200	126,200	121,654	4,546
Justice of the peace - Pct. #3	142,312	142,312	128,126	14,186
Justice of the peace - Pct. #4	126,946	126,946	128,551	(1,605)
Constable - Pct. #1	78,136	78,136	77,054	1,082
Constable - Pct. #2	81,307	81,307	71,004	10,303
Constable - Pct. #3	78,939	78,939	72,007	6,932
Constable - Pct. #4	<u>85,650</u>	<u>85,650</u>	<u>82,973</u>	<u>2,677</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 467,758	\$ 467,758	\$ 450,645	\$ 17,113
Court administrator -				
2nd / 369th district court	66,780	66,780	56,959	9,821
369th judicial district court	206,268	206,268	225,073	(18,805)
County court-at-law	629,873	629,873	573,422	56,451
Transfers to other funds	459,343	459,343	459,343	-
Other departmental	1,541,836	1,541,836	1,431,201	110,635
County special	406,364	406,364	381,022	25,342
County/state special	29,200	29,200	15,475	13,725
Juvenile probation	324,178	324,178	321,266	2,912
Emergency management	70,255	70,255	65,874	4,381
Rural addressing	23,690	23,690	23,690	-
Records management	43,000	43,000	66,455	(23,455)
Department of public safety	6,600	6,600	8,380	(1,780)
Total expenditures - sub-fund 010	<u>14,655,593</u>	<u>14,707,283</u>	<u>13,882,497</u>	<u>824,786</u>
Solid waste - sub-fund 021	165,014	165,014	104,953	60,061
General fund special - sub-fund 025	2,027,441	2,027,441	2,071,748	(44,307)
Indigent health - sub-fund 045	886,582	886,582	213,209	673,373
Historical commission - sub-fund 050	<u>15,055</u>	<u>15,055</u>	<u>16,164</u>	<u>(1,109)</u>
Total expenditures, as classified by budget	<u>17,749,685</u>	<u>17,801,375</u>	<u>16,288,571</u>	<u>1,512,804</u>
Less: other financing uses budgeted as expenditures			<u>(2,700,969)</u>	
Total expenditures, as classified per GAAP			<u>13,587,602</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>1,658,117</u>	
OTHER FINANCING SOURCES (USES)				
Transfers out			(669,507)	
Proceeds from sale of assets			29,975	
Insurance recoveries			46,515	
Total other financing sources (uses)			<u>(593,017)</u>	
NET CHANGE IN FUND BALANCES	(1,395,801)	(1,395,801)	1,065,100	2,460,901
FUND BALANCES, BEGINNING	<u>2,576,038</u>	<u>2,576,038</u>	<u>2,576,038</u>	<u>-</u>
FUND BALANCES, ENDING	\$ <u>1,180,237</u>	\$ <u>1,180,237</u>	\$ <u>3,641,138</u>	\$ <u>2,460,901</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,441,841	\$ 4,441,841	\$ 4,525,697	\$ 83,856
Fees of office	842,000	842,000	1,031,554	189,554
Intergovernmental	48,000	48,000	74,139	26,139
Interest	16,250	16,250	63,250	47,000
Miscellaneous	-	51,970	52,746	776
Total revenues	<u>5,348,091</u>	<u>5,400,061</u>	<u>5,747,386</u>	<u>347,325</u>
EXPENDITURES				
Non-departmental	565,399	565,399	538,900	26,499
Precinct 1	849,192	1,196,989	1,030,400	166,589
Precinct 2	1,553,556	2,035,693	1,673,420	362,273
Precinct 3	1,341,494	2,030,229	1,323,067	707,162
Precinct 4	1,106,244	1,438,737	963,644	475,093
License and weight division	82,206	82,206	28,163	54,043
Total expenditures	<u>5,498,091</u>	<u>7,349,253</u>	<u>5,557,594</u>	<u>1,791,659</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(150,000)</u>	<u>(1,949,192)</u>	<u>189,792</u>	<u>2,138,984</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	-	334	334
Insurance recoveries	-	-	76,581	76,581
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>76,915</u>	<u>76,915</u>
NET CHANGE IN FUND BALANCES	<u>(150,000)</u>	<u>(1,949,192)</u>	266,707	2,215,899
FUND BALANCES, BEGINNING	<u>2,050,715</u>	<u>2,050,715</u>	<u>2,050,715</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,900,715</u>	<u>\$ 101,523</u>	<u>\$ 2,317,422</u>	<u>\$ 2,215,899</u>

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

SEPTEMBER 30, 2019

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>	<u>2018</u>
\$	1,187,975	\$ 1,069,643	\$ 1,067,128
	2,844,319	2,996,799	3,100,722
	-	-	-
	-	241,262	-
(	445,927)	(547,134)	(71,400)
(	<u>2,075,536</u>)	(<u>2,311,283</u>)	(<u>2,645,346</u>)
	1,510,831	1,449,287	1,451,104
	<u>35,550,192</u>	<u>37,061,023</u>	<u>38,510,310</u>
\$	<u>37,061,023</u>	\$ <u>38,510,310</u>	\$ <u>39,961,414</u>
\$	1,013,384	\$ 1,000,335	\$ 1,017,651
	655,757	646,390	658,824
	2,371,928	4,931,858	(720,508)
(	2,075,536)	(2,311,282)	(2,645,346)
(	25,760)	(25,334)	(29,197)
(	<u>144,899</u>)	(<u>8,943</u>)	(<u>25,040</u>)
	1,794,874	4,233,024	(1,743,616)
	<u>32,066,265</u>	<u>33,861,138</u>	<u>38,094,162</u>
\$	<u>33,861,138</u>	\$ <u>38,094,162</u>	\$ <u>36,350,546</u>
\$	<u>3,199,885</u>	\$ <u>416,148</u>	\$ <u>3,610,868</u>
	91.37%	98.92%	90.96%
\$	9,367,951	\$ 9,234,147	\$ 9,411,766
	34.16%	4.51%	38.37%

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2019

<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%
2019	929,828	1,029,828	(100,000)	9,536,698	10.8%

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, 2019

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	7.7 years (based on contribution rate calculated in 12/31/2018 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 Plan Provisions Reflected in the Schedule of Employer Contributions*	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. 2018: No changes in plan provision were reflected in the Schedule.

*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

SEPTEMBER 30, 2019

Measurement Date December 31,	<u>2017</u>	<u>2018</u>
A. Total OPEB liability		
Service Cost	\$ 346,107	\$ 393,049
Interest (on the Total OPEB Liability)	252,524	243,927
Changes of benefit terms	-	3,267,379
Difference between expected and actual experience of the total OPEB liability	-	(13,070)
Changes of assumptions	400,354	(575,334)
Benefit payments, including refunds of employee contributions	<u>(280,926)</u>	<u>(281,057)</u>
Net change in Total OPEB liability	718,059	3,034,894
Total OPEB liability - beginning	<u>6,595,326</u>	<u>7,313,385</u>
Total OPEB liability - ending (a)	<u>7,313,385</u>	<u>10,348,279</u>
B. Covered-employee payroll	\$ 9,234,147	\$ 9,411,766
C. Total OPEB liability as a percentage of covered-employee payroll	79.20%	109.95%

Notes:

- This schedule is required to have 10 years of information, but the information prior to 2017 is not available.
- 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*.
- Changes in assumptions reflect annual change in the discount rate.
- Changes of benefit terms reflect increases to the County's pre-65 and post-65 subsidies and adjusting the health care trend rate assumption for subsidies to increase with inflation.

THIS PAGE LEFT BLANK INTENTIONALLY

**COMBINING
FUND STATEMENTS**

THIS PAGE LEFT BLANK INTENTIONALLY

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	Special Revenue		
	County Health Unit	Airport	Grant
ASSETS			
Cash and cash equivalents	\$ 169,555	\$ 336,688	\$ 495,987
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Due from other governments	32,217	-	-
Total assets	\$ 201,772	\$ 336,688	\$ 495,987
LIABILITIES			
Accounts payable	\$ 7,203	\$ 16,438	\$ 7,955
Accrued liabilities	23,215	3,657	4,616
Total liabilities	30,418	20,095	12,571
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted for:			
General government	-	-	11,537
Justice system	-	-	471,879
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	-	-
Debt service	-	-	-
Assigned for:			
Health and human services	171,354	-	-
Infrastructure and environmental services	-	316,593	-
Capital projects	-	-	-
Total fund balances	171,354	316,593	483,416
Total liabilities, deferred inflows and fund balances	\$ 201,772	\$ 336,688	\$ 495,987

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	Special Revenue		
	Constables LEF Special	Local Provider Participation	State Hospital/ MHMR
ASSETS			
Cash and cash equivalents	\$ 16,713	\$ 557,951	\$ 33,279
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Due from other governments	-	-	-
Total assets	\$ 16,713	\$ 557,951	\$ 33,279
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 4,250
Accrued liabilities	-	-	225
Total liabilities	-	-	4,475
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted for:			
General government	-	-	-
Justice system	-	-	-
Public safety	16,713	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	557,951	-
Debt service	-	-	-
Assigned for:			
Health and human services	-	-	28,804
Infrastructure and environmental services	-	-	-
Capital projects	-	-	-
Total fund balances	16,713	557,951	28,804
Total liabilities, deferred inflows and fund balances	\$ 16,713	\$ 557,951	\$ 33,279

Special Revenue

<u>CDBG</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 1,819	\$ 33,237	\$ 2,049,528
-	61,894	-	61,894
-	5,528	-	5,528
-	-	-	32,217
<u>\$ -</u>	<u>\$ 69,241</u>	<u>\$ 33,237</u>	<u>\$ 2,149,167</u>
\$ -	\$ -	\$ -	\$ 52,177
-	-	-	51,548
-	-	-	103,725
-	3,518	-	3,518
-	3,518	-	3,518
-	-	-	11,537
-	-	-	729,105
-	-	-	73,474
-	-	-	54,146
-	-	-	557,951
-	65,723	-	65,723
-	-	-	200,158
-	-	-	316,593
-	-	33,237	33,237
-	65,723	33,237	2,041,924
<u>\$ -</u>	<u>\$ 69,241</u>	<u>\$ 33,237</u>	<u>\$ 2,149,167</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Special Revenue		
	County Health Unit	Airport	Grant
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	142,047	425,212	201,904
Intergovernmental	425,723	6,343	115,053
Fines and forfeitures	-	-	39,633
Interest	4,958	5,094	-
Total revenues	<u>572,728</u>	<u>436,649</u>	<u>356,590</u>
EXPENDITURES			
Current:			
General government	-	-	520,876
Justice system	-	-	218,680
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Health and human services	901,044	-	-
Infrastructure and environmental services	-	514,848	-
Capital outlay	-	-	-
Total expenditures	<u>901,044</u>	<u>514,848</u>	<u>739,556</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(328,316)</u>	<u>(78,199)</u>	<u>(382,966)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	308,000	91,629	-
Transfers out	-	-	-
Total other financing sources and uses	<u>308,000</u>	<u>91,629</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(20,316)</u>	<u>13,430</u>	<u>(382,966)</u>
FUND BALANCES, BEGINNING	<u>191,670</u>	<u>303,163</u>	<u>866,382</u>
PRIOR PERIOD ADJUSTMENT	-	-	-
FUND BALANCES, BEGINNING, RESTATED	<u>191,670</u>	<u>303,163</u>	<u>866,382</u>
FUND BALANCES, ENDING	<u>\$ 171,354</u>	<u>\$ 316,593</u>	<u>\$ 483,416</u>

Special Revenue

Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	97,483	-	-
13,767	599,282	-	-	-
-	6,373	-	22,996	43,932
447	5,476	-	-	-
<u>14,214</u>	<u>611,131</u>	<u>97,483</u>	<u>22,996</u>	<u>43,932</u>
-	-	-	-	-
-	781,013	-	32,055	-
7,904	-	-	-	34,401
-	-	86,140	-	-
-	-	-	-	-
-	-	-	-	-
<u>7,904</u>	<u>781,013</u>	<u>86,140</u>	<u>32,055</u>	<u>34,401</u>
6,310	(169,882)	11,343	(9,059)	9,531
-	269,878	-	-	-
-	-	-	-	-
-	<u>269,878</u>	-	-	-
6,310	99,996	11,343	(9,059)	9,531
<u>20,654</u>	<u>137,271</u>	<u>42,803</u>	<u>29,018</u>	<u>20,266</u>
-	-	-	-	-
<u>20,654</u>	<u>137,271</u>	<u>42,803</u>	<u>29,018</u>	<u>20,266</u>
\$ <u>26,964</u>	\$ <u>237,267</u>	\$ <u>54,146</u>	\$ <u>19,959</u>	\$ <u>29,797</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Special Revenue		
	Constables LEF Special	Local Provider Participation	State Hospital/ MHMR
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	-	-	51,120
Intergovernmental	-	200,025	-
Fines and forfeitures	283	-	-
Interest	-	10,109	-
Total revenues	<u>283</u>	<u>210,134</u>	<u>51,120</u>
EXPENDITURES			
Current:			
General government	-	-	-
Justice system	-	-	-
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	-	54,774
Infrastructure and environmental services	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>54,774</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>283</u>	<u>210,134</u>	<u>(3,654)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(60,000)	-
Total other financing sources and uses	<u>-</u>	<u>(60,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	283	150,134	(3,654)
FUND BALANCES, BEGINNING	<u>16,430</u>	<u>-</u>	<u>32,458</u>
PRIOR PERIOD ADJUSTMENT	-	407,817	-
FUND BALANCES, BEGINNING, RESTATED	<u>16,430</u>	<u>407,817</u>	<u>32,458</u>
FUND BALANCES, ENDING	<u>\$ 16,713</u>	<u>\$ 557,951</u>	<u>\$ 28,804</u>

Special Revenue

<u>CDBG</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 168	\$ -	\$ 168
-	-	-	917,766
53,659	-	-	1,413,852
-	-	-	113,217
-	<u>1,427</u>	<u>934</u>	<u>28,445</u>
<u>53,659</u>	<u>1,595</u>	<u>934</u>	<u>2,473,448</u>
-	-	-	520,876
-	-	-	1,031,748
-	-	-	42,305
-	-	-	86,140
-	-	-	955,818
53,659	-	-	568,507
-	-	<u>69,226</u>	<u>69,226</u>
<u>53,659</u>	<u>-</u>	<u>69,226</u>	<u>3,274,620</u>
-	<u>1,595</u>	<u>(68,292)</u>	<u>(801,172)</u>
-	-	60,000	729,507
-	-	-	<u>(60,000)</u>
-	-	<u>60,000</u>	<u>669,507</u>
-	1,595	<u>(8,292)</u>	<u>(131,665)</u>
-	<u>64,128</u>	<u>41,529</u>	<u>1,765,772</u>
-	-	-	407,817
-	<u>64,128</u>	<u>41,529</u>	<u>2,173,589</u>
\$ -	\$ <u>65,723</u>	\$ <u>33,237</u>	\$ <u>2,041,924</u>

COMPLIANCE SECTION

THIS PAGE LEFT BLANK INTENTIONALLY

INDEPENDENT AUDITOR'S 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 Commissioners' Court
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, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise Cherokee County, Texas' basic financial statements, and have issued our report thereon dated June 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cherokee County, Texas' 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 Cherokee County, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee County, Texas' 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 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 Cherokee County, Texas' 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 18, 2020