

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2022

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2022

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INTRODUCTORY SECTION

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CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2022

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Patrick Reagan

Billy McCutcheon

COUNTY AUDITOR

Steven Daughety

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, (the "County"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, as of September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Change of Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2022, the County adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for twelve months beyond the financial statement due date, including any currently know information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information 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.

Supplementary 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 combining fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report (AFR). The other information comprises the introductory section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2023, 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 solely 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 the effectiveness of 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
July 25, 2023

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**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cherokee County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2022. 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 \$14,025,672 (net position). Of this amount, \$2,789,880 (unrestricted net position) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position (government-wide) increased by \$4,779,931 due to operations. The primary cause for this increase was decreases in pension expenses due to the County's net pension liability converting to a net pension asset during the current year as well as increases to property tax revenues.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$17,401,910, an increase of \$3,387,497 in comparison with the prior year. Approximately 66% of this total amount, \$11,514,371, is available for spending at the County's discretion (unassigned and assigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$10,796,669 or 70% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) decreased by \$4,678,575 during the current fiscal year. The primary cause of this decrease was due to the County's net pension liability converting to a net pension asset as well as a decrease in the County's total OPEB liability during the current 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 themselves.

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 two categories: governmental 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 Road and Bridge Fund to demonstrate compliance with this budget. The ARP Act Grant Fund does not have a formally adopted budget.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets and deferred outflows exceeded liabilities and deferred inflows by \$14,025,672 as of September 30, 2022.

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	
	2022	2021
Current and other assets	\$ 37,830,507	\$ 23,531,603
Capital assets	7,551,629	8,161,595
Total assets	45,382,136	31,693,198
Deferred outflows - pensions	1,508,607	2,407,117
Deferred outflows - OPEB	2,234,261	2,749,407
Total deferred outflows of resources	3,742,868	5,156,524
Long-term liabilities	13,185,480	17,864,055
Other liabilities	12,198,556	7,405,454
Total liabilities	25,384,036	25,269,509
Deferred inflows - pensions	6,627,727	1,642,554
Deferred inflows - OPEB	2,745,910	691,918
Deferred inflows - leases	341,659	-
Total deferred inflows of resources	9,715,296	2,334,472
Net position:		
Net investment in capital assets	6,144,198	6,347,211
Restricted	5,091,594	5,456,035
Unrestricted	2,789,880	(2,557,505)
Total net position	\$ 14,025,672	\$ 9,245,741

Governmental Activities. Governmental activities increased Cherokee County’s net position by \$4,779,931. A key element of this increase in net position was the County’s net pension liability converting to a net pension asset of \$5,974,218 during the current year. Total revenues increased by \$7,406,129, primarily driven by revenues related to the LPPF Fund.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2022	2021
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 4,253,855	\$ 3,724,051
Operating grants and contributions	8,021,129	1,629,394
General revenues:		
Property taxes	18,908,730	18,102,171
Sales and other taxes	3,081,702	2,462,229
Gain on disposal of capital assets	193,071	870,980
Investment income	216,626	130,729
Miscellaneous	<u>133,108</u>	<u>140,552</u>
Total revenues	<u>34,808,221</u>	<u>27,060,106</u>
EXPENSES		
General government	5,253,840	6,250,443
Justice system	3,531,138	3,846,913
Public safety	3,554,906	3,685,946
Corrections and rehabilitation	2,735,324	2,875,475
Health and human services	7,252,080	1,327,567
Community and economic development	186,357	182,665
Infrastructure and environmental	7,478,647	6,562,621
Interest and fiscal charges	<u>35,998</u>	<u>48,928</u>
Total expenses	<u>30,028,290</u>	<u>24,780,558</u>
INCREASE (DECREASE) IN NET POSITION	4,779,931	2,279,548
NET POSITION, BEGINNING	<u>9,245,741</u>	<u>6,966,193</u>
NET POSITION, ENDING	<u>\$ 14,025,672</u>	<u>\$ 9,245,741</u>

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

As the County completed the year, its governmental funds, as presented in the balance sheet in this report, reported a *combined* fund balance of \$17,401,910 which is an increase of \$3,387,497 from last year's total of \$14,014,413.

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 \$10,796,669. 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 70% of the total General Fund expenditures. Additionally, revenues increased primarily because increases to property tax revenue that covered expenditures, which were relatively flat compared to 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, 2022, the Road and Bridge fund reported ending fund balance of \$3,156,801, all of which is restricted for providing infrastructure and environmental services. This is an increase of \$78,574 compared with the prior year. The primary cause of this due to increases in revenues amounting to \$778,208, primarily from a receipt of \$341,644, which represented the funding for the County's CTIF Grant program as well as increased property taxes.

The ARP Act Grant Fund is a major special revenue fund that accounts for the County's grant funding from the American Rescue Plan Act related to the COVID-19 pandemic. As of September 30, 2022, none of the receipts of \$10,225,868 had been spent and are shown as unearned revenue.

The LPPF Fund is a major special revenue fund that was established to allow local hospital providers to access more federal funds, to ensure access to care, and reduce the level of uncompensated care in the community. The County is authorized to collect a mandatory payment from each institutional health care provider located in the County and to use the funds for certain intergovernmental transfers and indigent care programs. As of September 30, 2022, the LPPF Fund reported ending fund balance of \$641,129, all of which is restricted for health expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$2,173,756. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,436,951 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, 2022, the County’s net investment amounts to \$7,440,063 (net of accumulated depreciation), an decrease of \$721,532 from the prior year. This decrease is attributable to the disposal of assets and depreciation expense exceeding additions for the year.

CHEROKEE COUNTY’S CAPITAL ASSETS

	Capital Assets	
	2022	2021
Land	\$ 544,383	\$ 544,383
Buildings	12,656,160	12,656,160
Infrastructure	111,448,764	111,448,764
Improvements	2,634,555	2,634,555
Machinery and equipment	14,074,802	13,743,635
Right to use - equipment	153,284	-
Less: accumulated depreciation	(133,960,319)	(132,865,902)
Total capital assets, net of accumulated depreciation	\$ 7,551,629	\$ 8,161,595

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

LONG-TERM DEBT

At September 30, 2022, the County had outstanding notes payable of \$1,428,671. Principal payments of \$469,128 were made on notes payable in the current year, and interest expense on notes payable for the year was \$35,998. Additional information on the County’s long-term debt can be found in the notes to the financial statements.

CHEROKEE COUNTY’S OUTSTANDING DEBT

	2022	2021
Notes payable	\$ 1,428,671	\$ 1,897,799
Leases	111,242	-
Compensated absences	293,505	293,183
Total outstanding debt	\$ 1,833,418	\$ 2,190,982

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The property tax rate for the General and Road and Bridge Funds for the fiscal year ended September 30, 2023, decreased from .58000 in fiscal year 2022 to .52000 per \$100 valuation.
- Continued increases in the property values in Cherokee County are expected to provide an additional \$1,105,460 of property tax revenue as compared to the fiscal year ended September 30, 2022.

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**

CHEROKEE COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2022

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 23,551,737
Investments	4,815,242
Receivables, net of allowance	3,352,543
Due from other governments	126,231
Prepaid items	10,536
Net pension asset	5,974,218
Capital assets:	
Land	544,383
Buildings and improvements	12,656,160
Infrastructure	111,448,764
Improvements other than buildings	2,634,555
Machinery and equipment	14,074,802
Right to use - equipment	153,284
Less: accumulated depreciation	<u>(133,960,319)</u>
Total capital assets	<u>7,551,629</u>
Total assets	<u>45,382,136</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	1,508,607
Related to OPEB	<u>2,234,261</u>
Total deferred outflows of resources	<u>3,742,868</u>
LIABILITIES	
Accounts payable	420,735
Accrued liabilities	300,229
Due to others	1,251,724
Unearned revenue	10,225,868
Noncurrent liabilities:	
Due within one year	
Long-term debt	454,009
Total OPEB liability	309,736
Due in more than one year	
Long-term debt	1,379,409
Total OPEB liability	<u>11,042,326</u>
Total liabilities	<u>25,384,036</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	6,627,727
Related to OPEB	2,745,910
Related to leases	<u>341,659</u>
Total deferred inflows of resources	<u>9,715,296</u>
NET POSITION	
Net investment in capital assets	6,144,198
Restricted	5,091,594
Unrestricted	<u>2,789,880</u>
Total net position	<u>\$ 14,025,672</u>

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

CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Revenue and Change in Primary Government Net Position
				Governmental Activities
Primary government				
Governmental activities:				
General government	\$ 5,253,840	\$ 1,526,586	\$ 14,814	\$(3,712,440)
Justice system	3,531,138	864,306	883,307	(1,783,525)
Public safety	3,554,906	379,380	53,137	(3,122,389)
Corrections and rehabilitation	2,735,324	194,100	2,137	(2,539,087)
Health and human services	7,252,080	90,006	6,588,443	(573,631)
Community and economic development	186,357	-	-	(186,357)
Infrastructure and environmental services	7,478,647	1,199,477	479,291	(5,799,879)
Interest and fiscal charges	35,998	-	-	(35,998)
Total governmental activities	<u>30,028,290</u>	<u>4,253,855</u>	<u>8,021,129</u>	<u>(17,753,306)</u>
Total primary government	<u>\$ 30,028,290</u>	<u>\$ 4,253,855</u>	<u>\$ 8,021,129</u>	<u>(17,753,306)</u>
General revenues				
Taxes:				
Property taxes levied for general purpose				13,414,772
Property taxes, levied for lateral roads				5,493,958
Sales				3,060,006
Other				21,696
Gain on disposal of capital assets				193,071
Investment income				216,626
Miscellaneous				<u>133,108</u>
Total general revenues				<u>22,533,237</u>
Change in net position				4,779,931
Net position, beginning				<u>9,245,741</u>
Net position, ending				<u>\$ 14,025,672</u>

CHEROKEE COUNTY, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2022

	General	Road and Bridge	ARP Act Grant	Local Provider Participation	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 6,124,248	\$ 4,374,569	\$ 10,256,984	\$ 641,129	\$ 2,154,807	\$ 23,551,737
Investments	4,751,335	-	-	-	63,907	4,815,242
Receivables (net of allowance for uncollectibles)						
Taxes	2,072,835	513,679	-	-	1,309	2,587,823
Accounts	422,920	-	-	-	-	422,920
Leases	-	-	-	-	341,800	341,800
Due from other governments	94,014	-	-	-	32,217	126,231
Due from other funds	-	-	-	-	223	223
Prepaid items	10,536	-	-	-	-	10,536
Total assets	<u>13,475,888</u>	<u>4,888,248</u>	<u>10,256,984</u>	<u>641,129</u>	<u>2,594,263</u>	<u>31,856,512</u>
LIABILITIES						
Accounts payable	294,234	96,006	-	-	30,495	420,735
Accrued liabilities	226,189	44,141	-	-	29,899	300,229
Due to others	96,724	1,155,000	-	-	-	1,251,724
Due to other funds	223	-	-	-	-	223
Unearned revenues	-	-	10,225,868	-	-	10,225,868
Total liabilities	<u>617,370</u>	<u>1,295,147</u>	<u>10,225,868</u>	<u>-</u>	<u>60,394</u>	<u>12,198,779</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable - property taxes	1,053,709	436,300	-	-	1,235	1,491,244
Unavailable - court fines and fees	422,920	-	-	-	-	422,920
Related to leases	-	-	-	-	341,659	341,659
Total deferred inflows of resources	<u>1,476,629</u>	<u>436,300</u>	<u>-</u>	<u>-</u>	<u>342,894</u>	<u>2,255,823</u>
FUND BALANCES						
Restricted for:						
Justice system	-	-	-	-	1,320,245	1,320,245
Public safety	-	-	-	-	101,674	101,674
Corrections and rehabilitation	-	-	-	-	30,193	30,193
Infrastructure and environmental services	-	3,156,801	31,116	-	-	3,187,917
Debt service	-	-	-	-	69,599	69,599
Health and human services	-	-	-	641,129	131,484	772,613
Committed for:						
Infrastructure and environmental services	-	-	-	-	405,298	405,298
Assigned for:						
Subsequent year's budget	585,220	-	-	-	-	585,220
Capital projects	-	-	-	-	132,482	132,482
Unassigned	10,796,669	-	-	-	-	10,796,669
Total fund balances	<u>11,381,889</u>	<u>3,156,801</u>	<u>31,116</u>	<u>641,129</u>	<u>2,190,975</u>	<u>17,401,910</u>
Total liabilities, deferred inflows and fund balance	\$ <u>13,475,888</u>	\$ <u>4,888,248</u>	\$ <u>10,256,984</u>	\$ <u>641,129</u>	\$ <u>2,594,263</u>	\$ <u>31,856,512</u>

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2022

Total fund balance - governmental funds	\$ 17,401,910
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.	7,440,063
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.	1,914,164
The net pension asset 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.	(11,008,613)
Long-term liabilities, including leases payable and compensated absences, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	(<u>1,721,852</u>)
Net position of governmental activities	\$ <u>14,025,672</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	General	Road and Bridge	ARP Act Grant	Local Provider Participation	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	\$ 13,578,476	\$ 5,556,127	\$ -	\$ -	\$ 596	\$ 19,135,199
Sales	3,060,006	-	-	-	-	3,060,006
Mixed beverage	21,696	-	-	-	-	21,696
Fees of office	1,092,243	1,007,299	-	-	1,185,718	3,285,260
Intergovernmental	343,898	390,029	-	6,025,395	1,246,683	8,006,005
Fines and forfeitures	771,861	-	-	-	182,961	954,822
Interest	150,942	25,352	24,387	7,031	8,914	216,626
Miscellaneous	90,151	42,957	-	-	-	133,108
Total revenues	<u>19,109,273</u>	<u>7,021,764</u>	<u>24,387</u>	<u>6,032,426</u>	<u>2,624,872</u>	<u>34,812,722</u>
EXPENDITURES						
Current:						
General government	4,942,957	602,067	-	-	22,285	5,567,309
Justice system	2,996,978	-	-	-	915,509	3,912,487
Public safety	3,806,056	-	-	-	106,723	3,912,779
Corrections and rehabilitation	2,610,068	-	-	-	180,598	2,790,666
Health and human services	297,932	-	-	6,000,000	1,025,955	7,323,887
Community and economic development	190,491	-	-	-	-	190,491
Infrastructure and environmental services	233,339	5,814,379	-	-	813,758	6,861,476
Capital outlay	181,224	286,758	-	-	18,952	486,934
Debt service:						
Principal	182,726	328,444	-	-	-	511,170
Interest	12,549	23,449	-	-	-	35,998
Total expenditures	<u>15,454,320</u>	<u>7,055,097</u>	<u>-</u>	<u>6,000,000</u>	<u>3,083,780</u>	<u>31,593,197</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,654,953</u>	<u>(33,333)</u>	<u>24,387</u>	<u>32,426</u>	<u>(458,908)</u>	<u>3,219,525</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	790,041	790,041
Transfers out	(770,041)	-	-	(20,000)	-	(790,041)
Sale of assets	27,095	111,907	-	-	-	139,002
Insurance recoveries	28,970	-	-	-	-	28,970
Total other financing sources (uses)	<u>(713,976)</u>	<u>111,907</u>	<u>-</u>	<u>(20,000)</u>	<u>790,041</u>	<u>167,972</u>
NET CHANGE IN FUND BALANCES	2,940,977	78,574	24,387	12,426	331,133	3,387,497
FUND BALANCES, BEGINNING	<u>8,440,912</u>	<u>3,078,227</u>	<u>6,729</u>	<u>628,703</u>	<u>1,859,842</u>	<u>14,014,413</u>
FUND BALANCES, ENDING	<u>\$ 11,381,889</u>	<u>\$ 3,156,801</u>	<u>\$ 31,116</u>	<u>\$ 641,129</u>	<u>\$ 2,190,975</u>	<u>\$ 17,401,910</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, 2022

Net change in fund balance - governmental funds	\$ 3,387,497
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 depreciation exceeded capital outlays in the current period.	(721,532)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(197,572)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	469,452
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>1,842,086</u>
Change in net position of governmental activities	\$ <u>4,779,931</u>

CHEROKEE COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

SEPTEMBER 30, 2022

ASSETS

Cash and equivalents
Total Assets

	<u>Custodial Funds</u>
	\$ 4,669,267
	<u>4,669,267</u>

LIABILITIES

Due to other governments
Total Liabilities

	<u>926,724</u>
	<u>926,724</u>

NET POSITION

Restricted for individuals
and other governments
Total Net Position

	<u>3,742,543</u>
	\$ <u>3,742,543</u>

CHEROKEE COUNTY, TEXAS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2022

ADDITIONS

	<u>Custodial Funds</u>
Fees on behalf of other governments	\$ 9,221,959
Fees on behalf of other contracting entities	209,659
Refunds and restitution	1,495,855
Court registry	1,642,798
Cash bonds	221,500
Escrow accounts	674,036
Interest earned	32,065
Miscellaneous	<u>311</u>
Total Additions	<u>13,498,183</u>

DEDUCTIONS

Fees on behalf of other governments	9,465,910
Disbursements on behalf of contracting entities	246,979
Bond returns	136,400
Court registry returns	1,086,900
Refunds and restitution	909,227
Escrow accounts	429,170
Miscellaneous	<u>9,867</u>
Total Deductions	<u>12,284,453</u>

NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION

1,213,730

NET POSITION, BEGINNING

2,528,813

NET POSITION, ENDING

\$ 3,742,543

CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

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

ARP Act Grant Fund – The ARP Act Grant Fund accounts for expenditures related to the County’s coronavirus local fiscal recovery fund grant program, which awarded to help alleviate the effects of the COVID-19 pandemic.

Local Provider Participation Fund – The Local Provider Participation Fund (LPPF) was established to allow local hospital providers to access more federal funds, to ensure access to care, and reduce the level of uncompensated care in the community. The County is authorized to collect a mandatory payment from each institutional health care provider located in the County and to use the funds for certain intergovernmental transfers and indigent care programs.

The County also reports fiduciary funds:

Custodial Funds – Custodial Funds are used to account for assets held by the County as an agent for individuals, private organizations, and other governments in an agency capacity.

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 and fiduciary fund 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.

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. The County’s investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

G. Capital Assets

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

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

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
Right to use - equipment	Lease term (3-5 years)

H. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets 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 assets 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.
- The County recognizes deferred inflows related to leases for its lessor transactions. These amounts offset the receivable related to the lease and will be recognized systematically in future years over the life of the lease.
- 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.

I. Unearned Revenue

Unearned revenue represents amounts received from grantors or customers for which the eligibility or performance obligations have not yet been met as of yearend.

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. Leases

The County has entered into various lease agreements as either lessee and lessor. Key estimates and judgments related to leases include how the County determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The County uses the interest rate charged by the lessor as the discount rate, if available. When the interest rate charged by the lessor is not provided, the County generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the County is reasonably certain to exercise.

The County monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability or lease asset.

Lessee. The County is a lessee for noncancellable leases of vehicles and equipment. The County recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. At the commencement of a lease, the County initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor. The County is a lessor for airport hangars at the County-owned airport. In both the government-wide financial statements and the governmental fund financial statements, the County initially measures the lease receivable and a deferred inflow of resources for the present value of payments expected to be made during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments made. The deferred inflow of resources is recognized as revenue on a systematic basis over the life of the lease.

P. 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, 2022, was \$.5800 per \$100 and was allocated as follows:

General fund	\$ 0.3950
General fund - indigent health	0.0150
Road and bridge fund	<u>0.1700</u>
	<u>\$ 0.5800</u>

Q. 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.

R. 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.

S. 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.

T. Change in Accounting Principle

GASB Statement No. 87, *Leases*, was adopted effective October 1, 2021. The statement addresses accounting and financial reporting for lease contracts. Statement No. 87 establishes standards for recognizing and measuring assets liabilities, deferred outflows of resources, deferred inflows of resources, and revenues and expenses related to leases in the basic financial statements, in addition to requiring more extensive note disclosures. The adoption of this standard did not result in a restatement of the beginning fund balance or net position, but assets and deferred inflows were recognized, and more extensive note disclosures were required.

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:

Fund	Department	Overage
General	Information technology	\$ 3,196
	Sheriff	142,913
	Justice of the peace - Pct. #1	1,888
	Justice of the peace - Pct. #4	3,096
	Constable - Pct. #1	550
	369th judicial district court	35,611
	Records Management	1,055
	Solid waste - sub-fund 021	62,645
	General fund special - sub-fund 025	3,470

These overages were funded with existing fund balance.

III. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

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, 2022, 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, 2022, the County had the following investments:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (days)</u>	<u>S&P Rating</u>
TexStar	\$ 474	12	AAAm
Certificate of Deposit	13,444,123	110	N/A

In the basic financial statements, the certificates of deposit are classified between cash equivalents and investments depending on the original maturity date of the individual certificate as described in Note I.F above.

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

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

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

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

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

C. Receivables and Allowance for Uncollectible Accounts

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Taxes receivable:				
Property tax	\$ 2,111,122	\$ 870,642	\$ 2,086	\$ 2,983,850
Sales tax	821,742	-	-	821,742
Mixed beverage tax	5,531	-	-	5,531
Court fines receivable	8,458,392	-	-	8,458,392
Leases receivable	-	-	341,800	341,800
Less: allowance for uncollectibles	(8,901,032)	(356,963)	(777)	(9,258,772)
Net accounts receivable	\$ <u>2,495,755</u>	\$ <u>513,679</u>	\$ <u>343,109</u>	\$ <u>3,352,543</u>

Leases Receivable. The County has entered into multiple lease agreements as lessor for hangar space at the County-owned airport. During fiscal year 2022, there were 26 active agreements with annual payments ranging from \$158 to \$1,275. The agreements cover terms ending from 2048 to 2062 with imputed interest rates ranging from 1.98% to 2.01%. For the year ended September 30, 2022, the County recognized lease revenue of \$10,683.

D. Unearned Revenue

As of September 30, 2022, the County reported unearned revenue of \$10,225,868 in the ARP Act Grant Fund. This is the amount of the total payment received from the grant, and no eligible grant expenditures had been claimed as of year end.

E. Due to Others

At September 30, 2022, the County held \$1,155,000 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, 2022, the County also held \$96,724 of the state portion of fines and fees collected for the third calendar quarter of 2022.

F. Capital Assets

Capital asset activity for the year ended September 30, 2022, 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	12,656,160	-	-	12,656,160
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,634,555	-	-	2,634,555
Machinery and equipment	13,743,635	755,955	424,788	14,074,802
Right to use - equipment	<u>153,284</u>	<u>-</u>	<u>-</u>	<u>153,284</u>
Total capital assets being depreciated	140,636,398	755,955	424,788	140,967,565
Less: accumulated depreciation:				
Buildings	9,541,466	203,028	-	9,744,494
Infrastructure	110,929,547	135,649	-	111,065,196
Improvements	2,317,726	36,417	-	2,354,143
Machinery and equipment	10,077,163	1,098,522	420,917	10,754,768
Right to use - equipment	<u>-</u>	<u>41,718</u>	<u>-</u>	<u>41,718</u>
Total capital assets being depreciated	132,865,902	1,515,334	420,917	133,960,319
Total depreciable assets, net	<u>7,770,496</u>	<u>(759,379)</u>	<u>3,871</u>	<u>7,007,246</u>
Total capital assets	<u>\$ 8,314,879</u>	<u>\$ (759,379)</u>	<u>\$ 3,871</u>	<u>\$ 7,551,629</u>

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

Governmental activities:	
General government	\$ 178,840
Justice system	25,175
Public safety	218,548
Corrections and rehabilitation	151,140
Health and human services	16,278
Community and economic development	4,221
Infrastructure and environmental services	<u>921,132</u>
Total governmental activities depreciation expense	<u>\$ 1,515,334</u>

G. Interfund Balances and Transfers

Interfund transfers for the fiscal year ended September 30, 2022, are summarized below:

Transfer from	Amount	Transfer to	Purpose
General fund	\$ 770,041	Nonmajor funds	Supplement fund sources and provide local matches to grant funds
Local Provider Participation	20,000	Nonmajor funds	Draw allowed administrative cost allowance from Local Provider Participation Funds
Total transfers	\$ <u>790,041</u>		

As of September 30, 2022, the General Fund reported amounts due to nonmajor governmental funds of \$223 for collections not yet remitted.

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, 2022.

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
Financed purchases	\$ 1,897,799	\$ -	\$ 469,128	\$ 1,428,671	\$ 354,314
Leases	153,284	-	42,042	111,242	40,994
Compensated absences	293,183	351,820	351,498	293,505	58,701
Total governmental activities	\$ <u>2,344,266</u>	\$ <u>351,820</u>	\$ <u>862,668</u>	\$ <u>1,833,418</u>	\$ <u>454,009</u>

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

Financed Purchases

The County has entered into financing arrangements to finance the purchase of equipment. The County retains title to the underlying equipment during and after the duration of the agreement. The arrangements are considered direct borrowings and are secured by the purchased equipment. Details on the arrangements outstanding as of September 30, 2022, is as follows:

	Issue Amount	Final Maturity	Interest Rate	Amounts Outstanding
First National Bank - 2021 MackTruck	\$ 128,594	2/28/2024	2.65%	\$ 100,036
First National Bank - 2022 Peterbilt Truck	88,563	4/16/2026	2.65%	71,765
First National Bank - 2022 Mack Dump Truck	148,345	10/30/2025	2.65%	141,061
Cadence Bank - 2021 John Deere Tractor	157,853	7/14/2024	2.25%	105,027
Cadence Bank - 2020 Caterpillar 150 Joy Motor Grader	291,747	1/5/2026	2.27%	260,286
Cadence Bank - 2020 Caterpillar 150 Joy Motor Grader	291,474	2/5/2026	2.27%	171,070
Cadence Bank - 2018 Caterpillar 150 Motor Grader	160,706	7/19/2026	2.34%	128,288
Independent Bank - Election Equipment	576,381	9/24/2024	2.75%	293,080
John Deere Financial - John Deere 620G Motor Grader	212,000	1/26/2027	3.95%	158,058
Total				\$ <u>1,428,671</u>

Debt service requirements to maturity for financed purchases are as follows:

Year Ended September 30,	Principal	Interest	Total
2023	\$ 354,314	\$ 37,297	\$ 391,611
2024	433,812	26,623	460,435
2025	151,120	16,068	167,188
2026	476,285	9,736	486,021
2027	13,140	108	13,248
Total	\$ <u>1,428,671</u>	\$ <u>89,832</u>	\$ <u>1,518,503</u>

Leases

As of September 30, 2022, the County had copiers leased. The lease payments range from \$1,085 to \$11,331 annually and mature at various points through fiscal year 2026. The lease liability was calculated using estimated incremental borrowing rates from 0.31% to 0.56%. During fiscal year 2022, the County recognized interest expense of \$1,535.

The combined future debt service requirements for leases payable are as follows:

Year Ended September 30,	Principal	Interest	Total
2023	\$ 40,994	\$ 490	\$ 41,484
2024	36,139	292	36,431
2025	26,422	121	26,543
2026	<u>7,687</u>	<u>11</u>	<u>7,698</u>
Total	<u>\$ 111,242</u>	<u>\$ 914</u>	<u>\$ 112,156</u>

IV. OTHER INFORMATION

A. Pension Plan

Plan Description

The County's nontraditional defined benefit pension plan, Texas County and District Retirement System (TCDRS), provides pensions for all of its full-time employees. The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 738 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report on a calendar year basis. The report is available online 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 20 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, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	196
Inactive employees entitled to but not yet receiving benefits	271
Active employees	<u>242</u>
	<u><u>709</u></u>

Contributions

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

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The County's actuarially required employer contribution rates were 7.44% and 8.61% for calendar years 2022 and 2021, respectively, which were less than the County's elected contribution rate of 9.75%. The County's contributions to TCDRS for the year ended September 30, 2022, were \$1,064,093 and were \$248,829 greater than the required contributions.

Net Pension Asset

The County's Net Pension Asset (NPA) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	7.50%, 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	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and non-depositing members	135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

All actuarial assumptions that determined the total pension liability as of December 31, 2021 were based on the results of an actuarial experience study for the period January 1, 2017 - December 31, 2020, except where required to be different by GASB 68. The economic assumptions were reviewed at the March 2021 TCDRS Board of Trustees meeting and revised assumptions were adopted. These revisions included reductions in the investment return, wage growth, and maximum payroll growth assumptions. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

The long-term expected rate of return on pension plan investments is 7.60%. 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 2022 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 long-term time horizon; the most recent analysis was performed in March 2021.

The target allocation and best estimates of geometric real rates return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	3.80%
Global Equities	MSCI World (net) Index	2.50%	4.10%
International Equities - Developed	MSCI World Ex USA (net) Index	5.00%	3.80%
International Equities - Emerging	MSCI Emerging Markets (net) Index	6.00%	4.30%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	1.77%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	4.50%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.10%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	3.85%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.10%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	6.80%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.55%
Cash Equivalents	90-Day U.S. Treasury	2.00%	-1.05%

⁽¹⁾ Target asset allocation adopted at the March 2022 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.06% per Cliffwater's 2022 capital market assumptions.

⁽³⁾ Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

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

⁽⁵⁾ Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.60%. 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 Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2020	\$ 46,016,341	\$ 44,591,155	\$ 1,425,186
Changes for the year:			
Service cost	1,240,102	-	1,240,102
Interest on total pension liability ⁽¹⁾	3,484,391	-	3,484,391
Effect of economic/demographic gains or losses	(418,858)	-	(418,858)
Effect of assumptions changes or inputs	(286,964)	-	(286,964)
Refund of contributions	(119,452)	(119,452)	-
Benefit payments	(2,751,516)	(2,751,516)	-
Administrative expenses	-	(28,748)	28,748
Member contributions	-	708,046	(708,046)
Net investment income	-	9,670,734	(9,670,734)
Employer contributions	-	1,086,214	(1,086,214)
Other ⁽²⁾	-	(18,171)	18,171
Balance at 12/31/2021	\$ <u>47,164,044</u>	\$ <u>53,138,262</u>	\$ <u>(5,974,218)</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 asset of the County, calculated using the discount rate of 7.60%, as well as what the County's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60%) or 1-percentage-higher (8.60%) than the current rate:

	1% Decrease 6.60%	Current Discount Rate 7.60%	1% Increase 8.60%
Total pension liability	\$ 52,800,324	\$ 47,164,044	\$ 42,401,942
Fiduciary net position	<u>53,138,262</u>	<u>53,138,262</u>	<u>53,138,262</u>
Net pension liability/(asset)	\$ <u>(337,938)</u>	\$ <u>(5,974,218)</u>	\$ <u>(10,736,320)</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, 2022, the County recognized pension expense of \$377,792. At September 30, 2022, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 328,209
Changes in actuarial assumptions	783,782	191,309
Difference between projected and actual investment earnings	-	6,108,209
Contributions subsequent to the measurement date	<u>724,825</u>	<u>-</u>
Total	<u>\$ 1,508,607</u>	<u>\$ 6,627,727</u>

\$724,825 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 total pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	Pension Expense Amount
2023	\$(817,218)
2024	(2,305,131)
2025	(1,456,851)
2026	(1,264,745)

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. For employees who retire before December 31, 2022, the retiree’s premium payment amount will be frozen, and the County will increase its contribution to cover any future premium increases. For employees retiring after that date, the County provides a \$400 monthly subsidy for that retiree that is applied toward their insurance premiums, and all other premiums must be covered by that retiree. Once the retiree is eligible for Medicare, the retiree must enroll in Medicare Part B and cannot remain on the main retiree health plan. At that time, the County provides \$300 monthly toward its Medicare supplement plan. The County’s OPEB contributions also include an implicit subsidy calculated by the plan’s consulting actuary. For the year ended September 30, 2022, contributions by the County were \$309,736, 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	63
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>220</u>
	<u><u>283</u></u>

Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

Actuarial Valuation Date	December 31, 2021
Actuarial Cost Method	Individual Entry Age
Discount rate	1.84% as of December 31, 2021
Inflation Rate	2.50%
Salary Increases	0.40% to 5.25%, not including wage inflation of 3.00%
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2020 as conducted for the Texas County and District Retirement System (TCDRS)
Mortality	For healthy retirees, the Pub-2010 General Retirees Tables for males and females are used with male rates multiplied by 135% and female rates multiplied by 120%. Those rates are projected on a fully generational basis based on 100% of the ultimate rates of mortality improvement scale MP-2021.
Health care cost trend rates	Pre-65: Initial rate of 7.00% declining to an ultimate rate of 4.15% after 13 years. Post-65: Initial rate of 5.30% declining to an ultimate rate of 4.15% after 12 years.
Participation rates	It was assumed that 80% of eligible retirees would choose to receive retiree health care benefits and life insurance coverage through the County.
Notes	The discount rate changed from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021. Additionally, the demographic and salary increase assumptions were updated to reflect the 2021 TCDRS experience study, and the period of service used for the allocation of service costs was changed to only reflect service with Cherokee County.

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 1.84% 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, 2021.

Changes in the Total OPEB Liability

The County's total OPEB liability of \$11,352,062 was measured as of December 31, 2021 and was determined by an actuarial valuation as of December 31, 2021.

	<u>Total OPEB Liability</u>
Balance at 12/31/2020	\$ 14,247,887
Changes for the year:	(1,147,336)
Service cost	903,005
Interest	290,495
Difference between expected and actual experience of the total OPEB liability	(1,253,275)
Changes of assumptions	(1,339,426)
Benefit payments	(349,288)
Net changes	(2,895,825)
Balance at 12/31/2021	\$ <u>11,352,062</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.00% to 1.84%.

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 (1.84%) in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (0.84%)</u>	<u>Discount Rate (1.84%)</u>	<u>1% Increase in Discount Rate (2.84%)</u>
Total OPEB Liability	\$ 13,043,532	\$ 11,352,062	\$ 9,961,726

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	\$ 10,290,867	\$ 11,352,062	\$ 12,607,820

E. New Accounting Standards

Significant new accounting standard not yet implemented by the County includes the following:

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* – The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. GASB 94 will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

Statement No. 96, *Subscription-Based Information Technology Arrangements* - This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This Statement will become effective for reporting periods beginning after June 15, 2022, and the impact has not yet been determined.

GASB Statement No. 100, *Accounting Changes and Error Corrections* — an amendment of GASB Statement No. 62 - The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, *Compensated Absences* - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

**REQUIRED
SUPPLEMENTARY INFORMATION**

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 13,056,320	\$ 13,056,320	\$ 13,578,476	\$ 522,156
Sales	1,913,142	1,913,142	3,060,006	1,146,864
Mixed beverage	20,000	20,000	21,696	1,696
Fees of office	875,700	875,700	1,092,243	216,543
Intergovernmental	346,360	346,360	343,898	(2,462)
Fines and forfeitures	597,550	597,550	771,861	174,311
Interest	95,750	95,750	150,942	55,192
Miscellaneous	42,250	42,250	90,151	47,901
Insurance recoveries	-	17,415	28,970	11,555
Transfers	<u>2,074,754</u>	<u>2,074,754</u>	<u>2,074,754</u>	<u>-</u>
Total revenues, as classified by budget	<u>19,021,826</u>	<u>19,039,241</u>	<u>21,212,997</u>	<u>2,173,756</u>
Less: other financing sources budgeted as revenues			<u>(2,103,724)</u>	
Total revenues, as classified per GAAP			<u>19,109,273</u>	
EXPENDITURES				
County auditor	305,455	305,455	290,284	15,171
Information technology	243,981	243,981	247,177	(3,196)
Veterans service office	103,601	103,601	99,354	4,247
Human resources	86,633	86,633	86,178	455
Maintenance	414,058	414,058	387,324	26,734
Agricultural agent	196,193	196,193	179,655	16,538
Tax assessor-collector	603,089	603,089	588,829	14,260
District clerk	395,896	395,896	373,213	22,683
County clerk	443,324	443,324	432,084	11,240
Elections	430,909	430,909	414,547	16,362
County treasurer	194,930	194,930	190,222	4,708
Sheriff	3,376,387	3,420,897	3,563,810	(142,913)
Jail	2,631,831	2,631,831	2,610,068	21,763
County judge	227,208	227,208	179,509	47,699
County attorney	421,658	421,658	402,170	19,488
District attorney	538,313	538,313	500,591	37,722
Justice of the peace - Pct. #1	128,562	128,562	130,450	(1,888)
Justice of the peace - Pct. #2	137,212	137,212	131,673	5,539
Justice of the peace - Pct. #3	152,584	152,584	138,571	14,013
Justice of the peace - Pct. #4	136,983	136,983	140,079	(3,096)
Constable - Pct. #1	82,989	82,989	83,539	(550)
Constable - Pct. #2	86,417	86,417	74,417	12,000
Constable - Pct. #3	84,359	84,359	83,576	783
Constable - Pct. #4	82,246	82,246	80,666	1,580

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 566,707	\$ 566,707	\$ 473,149	\$ 93,558
369th judicial district court	355,708	355,708	391,319	(35,611)
County court-at-law	669,420	669,420	619,897	49,523
Transfers to other funds	541,140	541,140	541,140	-
Other departmental	1,792,802	1,792,802	1,443,393	349,409
County special	396,464	396,464	394,053	2,411
County/state special	1,600	1,600	1,400	200
Juvenile probation	361,213	361,213	349,194	12,019
Emergency management	75,573	75,573	73,813	1,760
Rural addressing	24,734	24,734	24,734	-
Records management	51,000	51,000	52,055	(1,055)
Department of public safety	<u>5,000</u>	<u>5,000</u>	<u>2,725</u>	<u>2,275</u>
Total expenditures - sub-fund 010	<u>16,346,179</u>	<u>16,390,689</u>	<u>15,774,858</u>	<u>615,831</u>
Solid waste - sub-fund 021	170,504	170,504	233,149	(62,645)
General fund special - sub-fund 025	2,093,142	2,093,142	2,096,612	(3,470)
Indigent health - sub-fund 045	1,065,481	1,065,481	183,660	881,821
Historical commission - sub-fund 050	<u>16,250</u>	<u>16,250</u>	<u>10,836</u>	<u>5,414</u>
Total expenditures, as classified by budget	<u>19,691,556</u>	<u>19,736,066</u>	<u>18,299,115</u>	<u>1,436,951</u>
Less: other financing uses budgeted as expenditures			<u>(2,844,795)</u>	
Total expenditures, as classified per GAAP			<u>15,454,320</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>3,654,953</u>	
OTHER FINANCING SOURCES (USES)				
Transfers out			(770,041)	
Proceeds from sale of assets			27,095	
Insurance recoveries			<u>28,970</u>	
Total other financing sources (uses)			<u>(713,976)</u>	
NET CHANGE IN FUND BALANCES	(669,730)	(696,825)	2,940,977	3,637,802
FUND BALANCES, BEGINNING	<u>8,440,912</u>	<u>8,440,912</u>	<u>8,440,912</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 7,771,182</u>	<u>\$ 7,744,087</u>	<u>\$ 11,381,889</u>	<u>\$ 3,637,802</u>

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CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 5,407,674	\$ 5,407,674	\$ 5,556,127	\$ 148,453
Fees of office	941,000	941,000	1,007,299	66,299
Intergovernmental	50,000	391,644	390,029	(1,615)
Interest	14,850	14,850	25,352	10,502
Miscellaneous	-	42,140	42,957	817
Total revenues	<u>6,413,524</u>	<u>6,797,308</u>	<u>7,021,764</u>	<u>224,456</u>
EXPENDITURES				
Non-departmental	603,076	603,076	602,067	1,009
Precinct 1	1,038,234	1,565,846	1,352,021	213,825
Precinct 2	1,898,601	2,427,249	2,072,836	354,413
Precinct 3	1,457,201	1,788,048	1,591,728	196,320
Precinct 4	1,351,934	1,905,093	1,380,629	524,464
License and weight division	64,478	64,478	55,816	8,662
Total expenditures	<u>6,413,524</u>	<u>8,353,790</u>	<u>7,055,097</u>	<u>1,298,693</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(1,556,482)</u>	<u>(33,333)</u>	<u>1,523,149</u>
OTHER FINANCING SOURCES (USES)				
Sale of assets	-	75,790	111,907	36,117
Total other financing sources (uses)	<u>-</u>	<u>75,790</u>	<u>111,907</u>	<u>36,117</u>
NET CHANGE IN FUND BALANCES	-	(1,480,692)	78,574	1,559,266
FUND BALANCES, BEGINNING	<u>3,078,227</u>	<u>3,078,227</u>	<u>3,078,227</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 3,078,227</u>	<u>\$ 1,597,535</u>	<u>\$ 3,156,801</u>	<u>\$ 1,559,266</u>

CHEROKEE COUNTY, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS

SEPTEMBER 30, 2022

Measurement Date December 31	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 1,087,069	\$ 1,187,975	\$ 1,069,643
Interest total pension liability	2,715,879	2,844,319	2,996,799
Effect of plan changes	(172,587)	-	-
Effect of assumption changes or inputs	402,325	-	241,262
Effect of economic/demographic (gains) or losses	(326,643)	(445,927)	(547,134)
Benefit payments/refunds of contributions	<u>(2,039,552)</u>	<u>(2,075,536)</u>	<u>(2,311,282)</u>
Net change in total pension liability	1,666,491	1,510,831	1,449,288
Total pension liability - beginning	<u>33,883,701</u>	<u>35,550,191</u>	<u>37,061,022</u>
Total pension liability - ending (a)	<u>\$ 35,550,192</u>	<u>\$ 37,061,022</u>	<u>\$ 38,510,310</u>
Plan Fiduciary Net Position			
Employer contributions	\$ 1,017,936	\$ 1,013,384	\$ 1,000,335
Member contributions	659,026	655,757	646,390
Investment income net of investment expenses	369,520	2,371,928	4,931,858
Benefit payments refunds of contributions	(2,039,552)	(2,075,536)	(2,311,282)
Administrative expenses	(23,062)	(25,760)	(25,334)
Other	<u>(25,403)</u>	<u>(144,899)</u>	<u>(8,943)</u>
Net change in plan fiduciary net position	(41,535)	1,794,874	4,233,024
Plan fiduciary net position - beginning	<u>32,107,800</u>	<u>32,066,265</u>	<u>33,861,139</u>
Plan fiduciary net position - ending (b)	<u>\$ 32,066,265</u>	<u>\$ 33,861,139</u>	<u>\$ 38,094,162</u>
Net pension liability/(asset) - ending (a) - (b)	<u>\$ 3,483,927</u>	<u>\$ 3,199,883</u>	<u>\$ 416,148</u>
Fiduciary net position as a percentage of total pension liability	90.20%	91.37%	98.92%
Pensionable covered payroll	\$ 9,414,652	\$ 9,367,951	\$ 9,234,147
Net pension liability/(asset) as a percentage of covered payroll	37.01%	34.16%	4.51%

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

2018	2019	2020	2021
\$ 1,067,128	\$ 1,024,819	\$ 1,109,990	\$ 1,240,102
3,100,722	3,214,209	3,386,882	3,484,391
-	-	-	-
-	-	2,351,346	(286,964)
(71,400)	499,323	(146,911)	(418,858)
(2,645,346)	(2,661,087)	(2,723,645)	(2,870,968)
1,451,104	2,077,264	3,977,662	1,147,703
<u>38,510,310</u>	<u>39,961,414</u>	<u>42,038,679</u>	<u>46,016,341</u>
\$ <u>39,961,414</u>	\$ <u>42,038,678</u>	\$ <u>46,016,341</u>	\$ <u>47,164,044</u>
\$ 1,017,651	\$ 1,038,771	\$ 1,068,756	\$ 1,086,214
658,824	697,581	695,515	708,046
(720,508)	5,970,424	4,268,618	9,670,734
(2,645,346)	(2,661,087)	(2,723,645)	(2,870,968)
(29,197)	(31,502)	(32,628)	(28,748)
(25,040)	(25,902)	(24,292)	(18,171)
(1,743,616)	4,988,285	3,252,324	8,547,107
<u>38,094,162</u>	<u>36,350,546</u>	<u>41,338,831</u>	<u>44,591,155</u>
\$ <u>36,350,546</u>	\$ <u>41,338,831</u>	\$ <u>44,591,155</u>	\$ <u>53,138,262</u>
\$ <u>3,610,868</u>	\$ <u>699,847</u>	\$ <u>1,425,186</u>	\$ <u>(5,974,218)</u>
90.96%	98.34%	96.90%	112.67%
\$ 9,411,766	\$ 9,411,766	\$ 9,935,922	\$ 10,114,941
38.37%	7.44%	14.34%	-59.06%

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2022

<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>
2015	\$ 899,826	\$ 1,009,463	\$(109,637)	\$ 9,363,430	10.8%
2016	909,455	1,015,379	(105,924)	9,414,652	10.8%
2017	879,651	1,000,667	(135,101)	9,367,951	10.7%
2018	752,583	1,011,880	(259,297)	9,234,147	11.0%
2019	811,573	1,029,828	(218,255)	9,536,698	10.8%
2020	768,302	1,013,530	(245,228)	9,369,534	10.8%
2021	838,178	1,084,502	(246,324)	9,734,938	11.1%
2022	815,264	1,064,093	(248,829)	10,913,777	9.7%

Note: This schedule is required to have 10 years of information, but the information prior to 2015 is not available.

CHEROKEE COUNTY, TEXAS

NOTES TO SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2022

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis 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 (level percent of pay)
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	6.8 years (based on contribution rate calculated in 12/31/2021 valuation)
Asset Valuation Method	5-year smoothed fair value
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation.
Investment Rate of Return	7.50%, 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	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other 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. 2019: No changes in plan provision were reflected in the Schedule. 2020: No changes in plan provision were reflected in the Schedule. 2021: No changes in plan provisions 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, 2022

Measurement Date December 31,	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
A. Total OPEB liability				
Service Cost	\$ 393,049	\$ 632,013	\$ 789,982	\$ 903,005
Interest (on the Total OPEB Liability)	243,927	389,799	337,210	290,495
Changes of benefit terms	3,267,379	-	-	(1,147,336)
Difference between expected and actual experience of the total OPEB liability	(13,070)	(491,944)	2,313	(1,253,275)
Changes of assumptions	(575,334)	1,480,414	1,427,399	(1,339,426)
Benefit payments, including refunds of employee contributions	(281,057)	(315,131)	(352,447)	(349,288)
Net change in Total OPEB liability	3,034,894	1,695,151	2,204,457	(2,895,825)
Total OPEB liability - beginning	<u>7,313,385</u>	<u>10,348,279</u>	<u>12,043,430</u>	<u>14,247,887</u>
Total OPEB liability - ending (a)	<u>10,348,279</u>	<u>12,043,430</u>	<u>14,247,887</u>	<u>11,352,062</u>
B. Covered-employee payroll	\$ 9,411,766	\$ 9,628,266	\$ 9,935,922	\$ 10,114,941
C. Total OPEB liability as a percentage of covered-employee payroll	109.95%	125.08%	143.40%	112.23%

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.

**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2022

	Special Revenue		
	County Health Unit	Airport	Grant
ASSETS			
Cash and cash equivalents	\$ 56,414	\$ 415,728	\$ 1,143,504
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Leases	-	341,800	-
Due from other funds	-	-	-
Due from other governments	32,217	-	-
Total assets	<u>88,631</u>	<u>757,528</u>	<u>1,143,504</u>
LIABILITIES			
Accounts payable	5,610	7,863	1,118
Accrued liabilities	13,468	2,708	949
Total liabilities	<u>19,078</u>	<u>10,571</u>	<u>2,067</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Related to leases	-	341,659	-
Total deferred inflows of resources	<u>-</u>	<u>341,659</u>	<u>-</u>
FUND BALANCES			
Restricted for:			
Justice system	-	-	1,141,437
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Debt service	-	-	-
Health and human services	69,553	-	-
Committed for:			
Infrastructure and environmental services	-	405,298	-
Assigned for:			
Capital projects	-	-	-
Total fund balances	<u>69,553</u>	<u>405,298</u>	<u>1,141,437</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 88,631</u>	<u>\$ 757,528</u>	<u>\$ 1,143,504</u>

Special Revenue

Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account
\$ 23,147	\$ 190,435	\$ 30,193	\$ 17,042	\$ 65,852
-	-	-	-	-
-	-	-	-	-
223	-	-	-	-
-	-	-	-	-
<u>23,370</u>	<u>190,435</u>	<u>30,193</u>	<u>17,042</u>	<u>65,852</u>
-	15,904	-	-	-
-	<u>12,765</u>	-	-	-
-	<u>28,669</u>	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	161,766	-	17,042	-
23,370	-	-	-	65,852
-	-	30,193	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>23,370</u>	<u>161,766</u>	<u>30,193</u>	<u>17,042</u>	<u>65,852</u>
<u>\$ 23,370</u>	<u>\$ 190,435</u>	<u>\$ 30,193</u>	<u>\$ 17,042</u>	<u>\$ 65,852</u>

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2022

	Special Revenue		
	Constables LEF Special	State Hospital/ MHMR	Debt Service
ASSETS			
Cash and cash equivalents	\$ 12,452	\$ 61,940	\$ 5,618
Investments	-	-	63,907
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	1,309
Leases	-	-	-
Due from other funds	-	-	-
Due from other governments	-	-	-
Total assets	12,452	61,940	70,834
LIABILITIES			
Accounts payable	-	-	-
Accrued liabilities	-	9	-
Total liabilities	-	9	-
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	1,235
Related to leases	-	-	-
Total deferred inflows of resources	-	-	1,235
FUND BALANCES			
Restricted for:			
Justice system	-	-	-
Public safety	12,452	-	-
Corrections and rehabilitation	-	-	-
Debt service	-	-	69,599
Health and human services	-	61,931	-
Committed for:			
Infrastructure and environmental services	-	-	-
Assigned for:			
Capital projects	-	-	-
Total fund balances	12,452	61,931	69,599
Total liabilities, deferred inflows and fund balances	\$ 12,452	\$ 61,940	\$ 70,834

<u>Capital Projects</u>	<u>Total Nonmajor Governmental</u>
\$ 132,482	\$ 2,154,807
-	63,907
-	1,309
-	341,800
-	223
-	32,217
<u>132,482</u>	<u>2,594,263</u>
-	30,495
-	29,899
-	60,394
-	1,235
-	341,659
-	342,894
-	1,320,245
-	101,674
-	30,193
-	69,599
-	131,484
-	405,298
<u>132,482</u>	<u>132,482</u>
<u>132,482</u>	<u>2,190,975</u>
\$ <u>132,482</u>	\$ <u>2,594,263</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Special Revenue		
	County Health Unit	Airport	Grant
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	90,006	668,750	276,139
Intergovernmental	560,078	89,262	74,374
Fines and forfeitures	-	-	52,594
Interest	1,060	5,339	-
Total revenues	651,144	763,351	403,107
EXPENDITURES			
Current:			
General government	-	-	22,285
Justice system	-	-	87,467
Public safety	-	-	18,592
Corrections and rehabilitation	-	-	-
Health and human services	1,018,033	-	-
Infrastructure and environmental services	-	813,758	-
Capital outlay	-	-	-
Total expenditures	1,018,033	813,758	128,344
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(366,889)	(50,407)	274,763
OTHER FINANCING SOURCES (USES)			
Transfers in	311,528	100,000	-
Total other financing sources and uses	311,528	100,000	-
NET CHANGE IN FUND BALANCES	(55,361)	49,593	274,763
FUND BALANCES, BEGINNING	124,914	355,705	866,674
FUND BALANCES, ENDING	\$ 69,553	\$ 405,298	\$ 1,141,437

Special Revenue

Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	134,303	-	-
6,537	516,432	-	-	-
-	6,194	-	2,008	122,067
227	1,940	-	-	-
<u>6,764</u>	<u>524,566</u>	<u>134,303</u>	<u>2,008</u>	<u>122,067</u>
-	-	-	-	-
-	820,928	-	7,114	-
16,583	-	-	-	70,448
-	-	180,598	-	-
-	-	-	-	-
-	-	-	-	-
<u>16,583</u>	<u>820,928</u>	<u>180,598</u>	<u>7,114</u>	<u>70,448</u>
(9,819)	(296,362)	(46,295)	(5,106)	<u>51,619</u>
-	<u>310,513</u>	-	-	-
-	<u>310,513</u>	-	-	-
(9,819)	14,151	(46,295)	(5,106)	51,619
<u>33,189</u>	<u>147,615</u>	<u>76,488</u>	<u>22,148</u>	<u>14,233</u>
\$ <u>23,370</u>	\$ <u>161,766</u>	\$ <u>30,193</u>	\$ <u>17,042</u>	\$ <u>65,852</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Special Revenue		
	Constables LEF Special	State Hospital/ MHMR	Debt Service
REVENUES			
Property taxes	\$ -	\$ -	\$ 596
Fees of office	-	16,520	-
Intergovernmental	-	-	-
Fines and forfeitures	98	-	-
Interest	-	-	329
Total revenues	98	16,520	925
EXPENDITURES			
Current:			
General government	-	-	-
Justice system	-	-	-
Public safety	1,100	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	7,922	-
Infrastructure and environmental services	-	-	-
Capital outlay	-	-	-
Total expenditures	1,100	7,922	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,002)	8,598	925
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Total other financing sources and uses	-	-	-
NET CHANGE IN FUND BALANCES	(1,002)	8,598	925
FUND BALANCES, BEGINNING	13,454	53,333	68,674
FUND BALANCES, ENDING	\$ 12,452	\$ 61,931	\$ 69,599

<u>Capital Projects</u>	<u>Total Nonmajor Governmental</u>
\$ -	\$ 596
-	1,185,718
-	1,246,683
-	182,961
19	8,914
19	2,624,872
-	22,285
-	915,509
-	106,723
-	180,598
-	1,025,955
-	813,758
18,952	18,952
18,952	3,083,780
(18,933)	(458,908)
68,000	790,041
68,000	790,041
49,067	331,133
83,415	1,859,842
\$ 132,482	\$ 2,190,975

CHEROKEE COUNTY, TEXAS

COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS

SEPTEMBER 30, 2022

	<u>Cash Bond</u>	<u>County Clerk</u>	<u>District Clerk</u>
ASSETS			
Cash and equivalents	<u>\$ 420,641</u>	<u>\$ 840,648</u>	<u>\$ 1,934,093</u>
Total Assets	<u>420,641</u>	<u>840,648</u>	<u>1,934,093</u>
LIABILITIES			
Due to other governments	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for individuals and other governments	<u>420,641</u>	<u>840,648</u>	<u>1,934,093</u>
Total Net Position	<u>\$ 420,641</u>	<u>\$ 840,648</u>	<u>\$ 1,934,093</u>

<u>Tax Assessor/ Collector</u>	<u>District Attorney</u>	<u>CSCD</u>	<u>Sheriff</u>	<u>Total Custodial Funds</u>
<u>\$ 1,159,756</u>	<u>\$ 9,975</u>	<u>\$ 147,381</u>	<u>\$ 156,773</u>	<u>\$ 4,669,267</u>
<u>1,159,756</u>	<u>9,975</u>	<u>147,381</u>	<u>156,773</u>	<u>4,669,267</u>
<u>926,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>926,724</u>
<u>926,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>926,724</u>
<u>233,032</u>	<u>9,975</u>	<u>147,381</u>	<u>156,773</u>	<u>3,742,543</u>
<u>\$ 233,032</u>	<u>\$ 9,975</u>	<u>\$ 147,381</u>	<u>\$ 156,773</u>	<u>\$ 3,742,543</u>

CHEROKEE COUNTY, TEXAS

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Cash Bond</u>	<u>County Clerk</u>	<u>District Clerk</u>
ADDITIONS			
Fees on behalf of other governments	\$ -	\$ 823,267	\$ -
Fees on behalf of other contracting entities	-	-	-
Refunds and restitution	-	531,785	-
Court registry	-	-	1,642,798
Cash bonds	221,500	-	-
Escrow accounts	-	-	-
Interest earned	-	5,795	16,128
Miscellaneous	-	-	311
Total Additions	<u>221,500</u>	<u>1,360,847</u>	<u>1,659,237</u>
DEDUCTIONS			
Fees on behalf of other governments	-	1,081,891	-
Disbursements on behalf of contracting entities	-	-	-
Bond returns	136,400	-	-
Court registry returns	-	-	1,086,900
Refunds and restitution	-	5,515	2,232
Escrow accounts	-	-	-
Miscellaneous	-	72	364
Total Deductions	<u>136,400</u>	<u>1,087,478</u>	<u>1,089,496</u>
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	85,100	273,369	569,741
NET POSITION BEGINNING	<u>335,541</u>	<u>567,279</u>	<u>1,364,352</u>
NET POSITION, ENDING	<u>\$ 420,641</u>	<u>\$ 840,648</u>	<u>\$ 1,934,093</u>

<u>Tax Assessor/ Collector</u>	<u>District Attorney</u>	<u>CSCD</u>	<u>Sheriff</u>	<u>Total Custodial Funds</u>
\$ 8,398,692	\$ -	\$ -	\$ -	\$ 9,221,959
-	-	-	209,659	209,659
103,526	2,577	857,967	-	1,495,855
-	-	-	-	1,642,798
-	-	-	-	221,500
211,144	22,500	-	440,392	674,036
9,357	-	785	-	32,065
-	-	-	-	311
<u>8,722,719</u>	<u>25,077</u>	<u>858,752</u>	<u>650,051</u>	<u>13,498,183</u>
8,384,019	-	-	-	9,465,910
-	-	-	246,979	246,979
-	-	-	-	136,400
-	-	-	-	1,086,900
96,237	2,190	803,053	-	909,227
-	22,102	-	407,068	429,170
9,431	-	-	-	9,867
<u>8,489,687</u>	<u>24,292</u>	<u>803,053</u>	<u>654,047</u>	<u>12,284,453</u>
233,032	785	55,699	(3,996)	1,213,730
-	9,190	91,682	160,769	2,528,813
<u>\$ 233,032</u>	<u>\$ 9,975</u>	<u>\$ 147,381</u>	<u>\$ 156,773</u>	<u>\$ 3,742,543</u>

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COMPLIANCE SECTION

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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 of Cherokee County
Rusk, 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, 2022, and the related notes to the financial statements, which collectively comprise Cherokee County, Texas’ basic financial statements, and have issued our report thereon dated July 25, 2023.

Report on 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) as a basis for designing 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2022-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2022-002 to be significant deficiencies.

OFFICE LOCATIONS

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

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Cherokee County, Texas' Response to Findings

Cherokee County, Texas' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Cherokee County, Texas' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
July 25, 2023

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Findings Required to be Reported in Accordance with Government Auditing Standards

Finding 2022-001: Material Weakness

Criteria: According to the COSO model, effective internal control requires control activities to be implemented over key processes. Effective control activities require segregation of duties between authorization of transactions, custody of assets, and record keeping and reconciliation. In the context of cash collections, generally the duties of collecting cash should be performed by separate individuals than those who prepare deposits and reports.

Condition: In the County Tax Office, certain individuals possessed the ability to process cash receipts and prepare and make bank deposits with minimal or no secondary review. Additionally, amounts due to the County were often remitted for time periods of multiple weeks rather than daily, and amounts collected on behalf of the State were not reconciled to RTS, the State's online finance and collections system.

Cause: The County's cash collection control activities in the tax office did not contain adequate segregation of duties. Control activities did not fully segregate the duties of cash receipting, cash box custody, adjustments processing, and daily reconciling/reporting.

Effect: The inadequate design of internal controls has led to a suspicion by the County Auditor's Office of misappropriated cash from tills on hand and subsequently suspicion of modified reporting of County and State revenues to match the remaining till balances. Thus, this resulted in multiple suspected discrepancies in daily cash collections as well as annual commission payments from the State that shorted the County of commission revenues.

Recommendation: We recommend that the County segregate the duties of collecting, reconciling and reporting cash receipts, and that the review of transactions include original system-generated reports rather than solely on reporting generated by individual employee(s) in the tax office.

Management's Response: The County agrees with the finding. The following changes have been made to reduce the risk of misappropriation of cash collections by County employees in the tax office.

(1) The preparation, review, and delivery of bank deposits for amounts collected at the tax office will be segregated between individuals who do not process cash receipt transactions. Secondary review and approval will be noted on the appropriate document by the individual who performed the review. The County is in the process of adding an additional employee to the tax office to assist in the implementation of this process.

(2) Any amounts collected by the tax office that are due to the County will be remitted to the County weekly, or as soon thereafter as is practicable based on collection amounts. These payments will continue to be reviewed by a member of the auditor's office.

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Findings Required to be Reported in Accordance with Government Auditing Standards (Continued)

Finding 2022-001: Material Weakness (Continued)

Management's Response
(Continued):

(3) All cash payments received by the tax office on behalf of the State will be reconciled to the State's electronic RTS system. The amounts for transactions recorded in this system cannot be voided or modified by County employees who receive cash payments, and the County's internal auditor has begun comparing daily totals collected per the County's records and RTS each month and investigating any variances.

(4) The physical layout of the tax office has been modified to allow for increased line of sight between individuals. Previously individuals had been physically separated by file cabinets and other office equipment, which resulted in some employees working in isolation for extended time periods and with reduced interaction with other employees and supervisors. The County has also installed multiple cameras throughout the tax office, which are periodically monitored by officials outside the tax office.

Contact Person Responsible
for Corrective Action:

County Auditor and County Tax Assessor-Collector

Anticipated Completion Date:

September 30, 2023

Finding 2022-002: Significant Deficiency

Criteria:

According to the COSO model, effective internal control requires control activities to be implemented over key processes. Effective control activities require segregation of duties between authorization of transactions, custody of assets, and record keeping and reconciliation. In the context of cash collections, generally the duties of collecting cash should be performed by separate individuals than those who prepare deposits and reports.

Condition:

In the County Solid Waste department, a single individual determines the volume of waste brought by the customer, which is the basis for the fee charged, and also collects that fee from the customer. This information is maintained in spreadsheets accessible by that individual. Additionally, a County internal audit determined that the cash box was stored offsite after hours at the home of the employee that closed for that day.

Cause:

The County's cash collection control activities in the Solid Waste department do not contain adequate segregation of duties. Control activities did not fully segregate the duties of cash receipting, cash box custody, adjustments processing, and daily reconciling/reporting.

Effect:

Solid Waste revenues could be understated through inaccurate or biased estimates of volume charges, or misappropriation of cash could be not detected if receipt records are modified. The internal audit of the cash box led to the County ordering a safe to secure cash on-site.

CHEROKEE COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Findings Required to be Reported in Accordance with *Government Auditing Standards (Continued)*

Finding 2022-002: Significant Deficiency (Continued)

Recommendation: We recommend that the County adopt record-keeping functions that cannot be modified after the point of sale. Additionally, the County should consider monitoring controls to verify the completeness of revenue collections, such as collecting vehicle counts that can be reconciled to the record of customer transactions.

Management's Response: The County agrees with the finding and will consider options for implementing additional detective controls to verify the completeness of revenue.

Contact Person Responsible for Corrective Action: County Commissioners

Anticipated Completion Date: September 30, 2023

CHEROKEE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

Finding 2021-001: Material Weakness in Internal Control over Financial Reporting

Current Status:

Partially corrected - current year finding. See finding 2022-001. The deficiency was identified during fiscal year 2022, after a significant portion of the fiscal year had already elapsed. Management has implemented several immediate control changes, and expects to implement more comprehensive changes during fiscal year 2023.

Contact Person Responsible
for Corrective Action:

County Auditor and County Tax Assessor-Collector

Anticipated Completion Date:

September 30, 2023

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