

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2023

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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INTRODUCTORY SECTION

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CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2023

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, 2023, 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 the County, as of September 30, 2023, 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.

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.

OFFICE LOCATIONS

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

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 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 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 June 25, 2024, 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
June 25, 2024

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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, 2023. 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 \$18,752,205 (net position). Of this amount, \$5,884,837 (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 \$4,726,533 due to operations. The primary cause for this increase was an increase in investment income due to an increase in interest rates during the current year as well as increases to operating grant revenues from the American Rescue Plan Act (ARPA) grant.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$21,504,526, an increase of \$4,102,616 in comparison with the prior year. Approximately 67% of this total amount, \$14,496,425, 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 \$13,676,251 or 82% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) decreased by \$2,043,549 during the current fiscal year. The primary cause of this decrease was a decrease in the County's total OPEB liability, caused by a normal change to the discount rate measuring the liability.

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 \$18,752,205 as of September 30, 2023.

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	
	2023	2022
Current and other assets	\$ 34,890,925	\$ 37,830,507
Capital assets	<u>7,419,254</u>	<u>7,551,629</u>
Total assets	<u>42,310,179</u>	<u>45,382,136</u>
Deferred outflows - pensions	1,947,124	1,508,607
Deferred outflows - OPEB	<u>1,784,026</u>	<u>2,234,261</u>
Total deferred outflows of resources	<u>3,731,150</u>	<u>3,742,868</u>
Long-term liabilities	11,141,931	13,185,480
Other liabilities	<u>10,998,679</u>	<u>12,198,556</u>
Total liabilities	<u>22,140,610</u>	<u>25,384,036</u>
Deferred inflows - pensions	235,273	6,627,727
Deferred inflows - OPEB	4,582,631	2,745,910
Deferred inflows - leases	<u>330,610</u>	<u>341,659</u>
Total deferred inflows of resources	<u>5,148,514</u>	<u>9,715,296</u>
Net position:		
Net investment in capital assets	6,097,113	6,144,198
Restricted	6,770,255	5,091,594
Unrestricted	<u>5,884,837</u>	<u>2,789,880</u>
Total net position	<u>\$ 18,752,205</u>	<u>\$ 14,025,672</u>

Governmental Activities. Governmental activities increased Cherokee County's net position by \$4,726,533. A key element of this increase in net position was the County's total revenues increasing by \$4,541,559, primarily driven by investment revenue and an increase in operating grant revenue.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2023	2022
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 4,112,038	\$ 4,253,855
Operating grants and contributions	10,043,660	8,021,129
General revenues:		
Property taxes	20,036,763	18,908,730
Sales and other taxes	3,084,486	3,081,702
Gain on disposal of capital assets	243,257	193,071
Investment income	1,707,196	216,626
Miscellaneous	122,380	133,108
Total revenues	<u>39,349,780</u>	<u>34,808,221</u>
EXPENSES		
General government	6,234,007	5,253,840
Justice system	3,753,148	3,531,138
Public safety	4,205,258	3,554,906
Corrections and rehabilitation	2,872,504	2,735,324
Health and human services	8,541,501	7,252,080
Community and economic development	207,700	186,357
Infrastructure and environmental	8,770,916	7,478,647
Interest and fiscal charges	38,213	35,998
Total expenses	<u>34,623,247</u>	<u>30,028,290</u>
INCREASE (DECREASE) IN NET POSITION	4,726,533	4,779,931
NET POSITION, BEGINNING	<u>14,025,672</u>	<u>9,245,741</u>
NET POSITION, ENDING	<u>\$ 18,752,205</u>	<u>\$ 14,025,672</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 \$21,504,526 which is an increase of \$4,102,616 from last year's total of \$17,401,910.

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 \$13,676,251. 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 82% 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 and an increase in interest revenue.

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, 2023, the Road and Bridge fund reported ending fund balance of \$3,815,259, all of which is restricted for providing infrastructure and environmental services. This is an increase of \$658,458 compared with the prior year. The primary cause of this due to decreases in expenditures amounting to \$547,890, primarily from a decrease of infrastructure and environmental services expenditures of \$1,245,724.

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, 2023, \$1,766,773 of the receipts of \$10,225,868 had been spent and the remaining \$8,459,095 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, 2023, the LPPF Fund reported ending fund balance of \$106,773, 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 \$2,025,724. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$2,596,860 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, 2023, the County's net investment amounts to \$7,419,254 (net of accumulated depreciation), a decrease of \$132,375 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	
	2023	2022
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	15,209,867	14,074,802
Right to use - equipment	184,272	153,284
Less: accumulated depreciation	<u>(135,258,747)</u>	<u>(133,960,319)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 7,419,254</u>	<u>\$ 7,551,629</u>

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

LONG-TERM DEBT

At September 30, 2023, the County had outstanding financed purchases of \$1,226,084. Principal payments of \$353,943 were made on financed purchases and leases payable in the current year, and interest expense on financed purchases for the year was \$38,213. The County also issued three new leases for copy machines during the current year.

CHEROKEE COUNTY'S OUTSTANDING DEBT

	2023	2022
Financed purchases	\$ 1,226,084	\$ 1,428,671
Leases	96,057	111,242
Compensated absences	<u>355,477</u>	<u>293,505</u>
Total outstanding debt	<u>\$ 1,677,618</u>	<u>\$ 1,833,418</u>

Additional information on the County's long-term debt can be found in Note III.H to the financial statements.

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, 2024, decreased from .52000 in fiscal year 2023 to .49000 per \$100 valuation.
- Continued increases in the property values in Cherokee County are expected to provide an additional \$1,488,631 of property tax revenue as compared to the fiscal year ended September 30, 2023.

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, 2023

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 26,691,735
Investments	5,054,418
Receivables, net of allowance	3,095,262
Due from other governments	42,231
Prepaid items	7,279
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	15,209,867
Right to use - equipment	184,272
Less: accumulated depreciation	<u>(135,258,747)</u>
Total capital assets	<u>7,419,254</u>
Total assets	<u>42,310,179</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	1,947,124
Related to OPEB	<u>1,784,026</u>
Total deferred outflows of resources	<u>3,731,150</u>
LIABILITIES	
Accounts payable	914,552
Accrued liabilities	306,702
Due to others	1,218,330
Unearned revenue	8,559,095
Noncurrent liabilities:	
Due within one year	
Long-term debt	480,237
Total OPEB liability	320,181
Due in more than one year	
Long-term debt	1,197,381
Net pension liability	437,664
Total OPEB liability	<u>8,706,468</u>
Total liabilities	<u>22,140,610</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	235,273
Related to OPEB	4,582,631
Related to leases	<u>330,610</u>
Total deferred inflows of resources	<u>5,148,514</u>
NET POSITION	
Net investment in capital assets	6,097,113
Restricted	6,770,255
Unrestricted	<u>5,884,837</u>
Total net position	<u>\$ 18,752,205</u>

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

CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Functions/Programs	Program Revenues			Net (Expense)
	Expenses	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	\$ 6,234,007	\$ 1,401,540	\$ 1,837,516	\$ (2,994,951)
Justice system	3,753,148	951,312	831,778	(1,970,058)
Public safety	4,205,258	288,178	50,295	(3,866,785)
Corrections and rehabilitation	2,872,504	201,939	-	(2,670,565)
Health and human services	8,541,501	85,814	7,181,197	(1,274,490)
Community and economic development	207,700	-	-	(207,700)
Infrastructure and environmental services	8,770,916	1,183,255	142,874	(7,444,787)
Interest and fiscal charges	38,213	-	-	(38,213)
Total governmental activities	<u>34,623,247</u>	<u>4,112,038</u>	<u>10,043,660</u>	<u>(20,467,549)</u>
Total primary government	<u>\$ 34,623,247</u>	<u>\$ 4,112,038</u>	<u>\$ 10,043,660</u>	<u>(20,467,549)</u>
General revenues				
Taxes:				
Property taxes levied for general purpose				14,285,591
Property taxes, levied for lateral roads				5,751,172
Sales				3,056,395
Other				28,091
Gain on disposal of capital assets				243,257
Investment income				1,707,196
Miscellaneous				<u>122,380</u>
Total general revenues				<u>25,194,082</u>
Change in net position				4,726,533
Net position, beginning				<u>14,025,672</u>
Net position, ending				<u>\$ 18,752,205</u>

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

CHEROKEE COUNTY, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2023

	General	Road and Bridge	ARP Act Grant
ASSETS			
Cash and cash equivalents	\$ 9,456,785	\$ 5,057,359	\$ 9,244,565
Investments	4,987,222	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	1,766,565	525,411	-
Accounts	455,124	-	12,305
Leases	-	-	-
Due from other governments	10,014	-	-
Due from other funds	-	-	-
Prepaid items	7,279	-	-
Total assets	<u>16,682,989</u>	<u>5,582,770</u>	<u>9,256,870</u>
LIABILITIES			
Accounts payable	386,742	147,947	309,797
Accrued liabilities	231,967	48,070	-
Due to others	118,330	1,100,000	-
Due to other funds	-	-	-
Unearned revenues	100,000	-	8,459,095
Total liabilities	<u>837,039</u>	<u>1,296,017</u>	<u>8,768,892</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	1,130,080	471,494	-
Unavailable - court fines and fees	454,399	-	-
Related to leases	-	-	-
Total deferred inflows of resources	<u>1,584,479</u>	<u>471,494</u>	<u>-</u>
FUND BALANCES			
Restricted for:			
Justice system	-	-	-
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Infrastructure and environmental services	-	3,815,259	487,978
Debt service	-	-	-
Health and human services	-	-	-
Committed for:			
Infrastructure and environmental services	-	-	-
Assigned for:			
Subsequent year's budget	585,220	-	-
Capital projects	-	-	-
Unassigned	13,676,251	-	-
Total fund balances	<u>14,261,471</u>	<u>3,815,259</u>	<u>487,978</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 16,682,989</u>	<u>\$ 5,582,770</u>	<u>\$ 9,256,870</u>

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

Local Provider Participation	Other Governmental Funds	Total Governmental Funds
\$ 106,773	\$ 2,826,253	\$ 26,691,735
-	67,196	5,054,418
-	1,137	2,293,113
-	-	467,429
-	334,720	334,720
-	32,217	42,231
-	1,618	1,618
-	-	7,279
<u>106,773</u>	<u>3,263,141</u>	<u>34,892,543</u>
-	70,066	914,552
-	26,665	306,702
-	-	1,218,330
-	1,618	1,618
-	-	8,559,095
<u>-</u>	<u>98,349</u>	<u>11,000,297</u>
-	1,137	1,602,711
-	-	454,399
-	330,610	330,610
<u>-</u>	<u>331,747</u>	<u>2,387,720</u>
-	1,723,260	1,723,260
-	108,984	108,984
-	88,800	88,800
-	-	4,303,237
-	73,343	73,343
106,773	149,263	256,036
-	454,441	454,441
-	-	585,220
-	234,954	234,954
-	-	13,676,251
<u>106,773</u>	<u>2,833,045</u>	<u>21,504,526</u>
\$ 106,773	\$ 3,263,141	\$ 34,892,543

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CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2023

Total fund balance - governmental funds	\$ 21,504,526
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.	7,464,919
Some of the County's assets are not available to pay for current period expenditures and, therefore, are deferred as unavailable revenue in the funds.	2,057,110
The net pension liability and total other post employment benefits liability reported in the governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(10,551,067)
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>(1,723,283)</u>
Net position of governmental activities	<u>\$ 18,752,205</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	General	Road and Bridge	ARP Act Grant
REVENUES			
Taxes:			
Property	\$ 14,209,091	\$ 5,715,978	\$ -
Sales	3,056,395	-	-
Mixed beverage	28,091	-	-
Fees of office	1,135,014	1,034,214	-
Intergovernmental	268,923	48,244	1,766,773
Fines and forfeitures	731,913	-	-
Interest	1,078,033	90,901	456,862
Miscellaneous	101,205	21,175	-
Total revenues	<u>20,608,665</u>	<u>6,910,512</u>	<u>2,223,635</u>
EXPENDITURES			
Current:			
General government	5,534,202	630,172	-
Justice system	3,001,895	-	-
Public safety	4,146,915	-	-
Corrections and rehabilitation	2,737,896	-	-
Health and human services	389,715	-	-
Community and economic development	207,936	-	-
Infrastructure and environmental services	254,010	4,568,655	1,766,773
Capital outlay	200,526	1,069,382	-
Debt service:			
Principal	187,646	209,391	-
Interest	8,573	29,607	-
Total expenditures	<u>16,669,314</u>	<u>6,507,207</u>	<u>1,766,773</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,939,351</u>	<u>403,305</u>	<u>456,862</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(1,132,074)	-	-
Sale of assets	17,733	60,158	-
Issuance of debt	15,528	151,356	-
Insurance recoveries	39,044	43,639	-
Total other financing sources (uses)	<u>(1,059,769)</u>	<u>255,153</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	2,879,582	658,458	456,862
FUND BALANCES, BEGINNING	<u>11,381,889</u>	<u>3,156,801</u>	<u>31,116</u>
FUND BALANCES, ENDING	<u>\$ 14,261,471</u>	<u>\$ 3,815,259</u>	<u>\$ 487,978</u>

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

Local Provider Participation	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 227	\$ 19,925,296
-	-	3,056,395
-	-	28,091
-	1,117,862	3,287,090
6,596,832	1,337,873	10,018,645
-	86,571	818,484
54,887	26,513	1,707,196
-	-	122,380
<u>6,651,719</u>	<u>2,569,046</u>	<u>38,963,577</u>
-	32,982	6,197,356
-	837,081	3,838,976
-	41,010	4,187,925
-	31,035	2,768,931
7,166,075	999,088	8,554,878
-	-	207,936
-	817,134	7,406,572
-	333,068	1,602,976
-	3,079	400,116
-	33	38,213
<u>7,166,075</u>	<u>3,094,510</u>	<u>35,203,879</u>
<u>(514,356)</u>	<u>(525,464)</u>	<u>3,759,698</u>
-	1,152,074	1,152,074
(20,000)	-	(1,152,074)
-	-	77,891
-	15,460	182,344
-	-	82,683
<u>(20,000)</u>	<u>1,167,534</u>	<u>342,918</u>
(534,356)	642,070	4,102,616
<u>641,129</u>	<u>2,190,975</u>	<u>17,401,910</u>
<u>\$ 106,773</u>	<u>\$ 2,833,045</u>	<u>\$ 21,504,526</u>

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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, 2023

Net change in fund balance - governmental funds	\$ 4,102,616
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.	(86,710)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	142,946
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	354,451
Issuance of long-term debt is an other financing source in the governmental funds but increases the liability in the statement of net position.	(182,344)
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>395,574</u>
Change in net position of governmental activities	<u>\$ 4,726,533</u>

CHEROKEE COUNTY, TEXAS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

SEPTEMBER 30, 2023

ASSETS

	Custodial Funds
Cash and equivalents	<u>\$ 4,455,230</u>
Total Assets	<u>4,455,230</u>

LIABILITIES

Due to other governments	<u>739,773</u>
Total Liabilities	<u>739,773</u>

NET POSITION

Restricted for individuals and other governments	<u>3,715,457</u>
Total Net Position	<u>\$ 3,715,457</u>

CHEROKEE COUNTY, TEXAS**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2023

ADDITIONS

	Custodial Funds
Fees on behalf of other governments	\$ 8,067,272
Fees on behalf of other contracting entities	239,104
Refunds and restitution	1,143,765
Court registry	1,127,560
Cash bonds	240,951
Escrow accounts	738,958
Interest earned	145,567
Miscellaneous	7,568
Total Additions	<u>11,710,745</u>

DEDUCTIONS

Fees on behalf of other governments	8,215,690
Disbursements on behalf of contracting entities	28,071
Bond returns	151,650
Court registry returns	1,675,065
Refunds and restitution	991,683
Escrow accounts	675,361
Miscellaneous	311
Total Deductions	<u>11,737,831</u>

NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION (27,086)**NET POSITION, BEGINNING** 3,742,543**NET POSITION, ENDING** \$ 3,715,457

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CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2023

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, 2023, was \$.5200 per \$100 and was allocated as follows:

General fund	\$ 0.3640
General fund - indigent health	0.0060
Road and bridge fund	<u>0.1500</u>
	<u>\$ 0.5200</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.

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. Budgetary comparisons are presented as required supplementary information for the General Fund and Road and Bridge Fund. Legally-appropriated budgets are not adopted for the ARP Act Grant and Local Provider Participation funds; as such, no budgetary comparisons are presented for those funds.

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

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

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

<u>Fund</u>	<u>Department</u>	<u>Overage</u>
General	County/state special	\$ 323

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, 2023, 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, 2023, 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	\$ 8,446,095	29	AAAm

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 statutes governing public funds investment pools.

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

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

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

C. **Receivables and Allowance for Uncollectible Accounts**

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

	General	ARP Act Grant	Road and Bridge	Other Governmental	Total
Taxes receivable:					
Property tax	\$ 2,140,807	\$ -	\$ 890,527	\$ 1,889	\$ 3,033,223
Sales tax	497,957	-	-	-	497,957
Mixed beverage tax	5,531	-	-	-	5,531
Court fines receivable	9,087,971	-	-	-	9,087,971
Leases receivable	-	-	-	334,720	334,720
Other receivable	725	12,305	-	-	13,030
Less: allowance for uncollectibles	(9,511,302)	-	(365,116)	(752)	(9,877,170)
Net accounts receivable	\$ 2,221,689	\$ 12,305	\$ 525,411	\$ 335,857	\$ 3,095,262

Leases Receivable. The County has entered into multiple lease agreements as lessor for hangar space at the County-owned airport. During fiscal year 2023, 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, 2023, the County recognized lease revenue of \$11,049.

D. **Unearned Revenue**

As of September 30, 2023, the County reported unearned revenue of \$8,459,095 and \$100,000 in the ARP Act Grant Fund and Grant Fund respectively. This is the amount of the total payment received from the ARPA grant and the Local Assistance and Tribal Consistency Fund (LATCF) grant that had not been expended and claimed as of year end.

E. **Due to Others**

At September 30, 2023, the County held \$1,100,000 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, 2023, the County also held \$84,398 of the state portion of fines and fees collected for the third calendar quarter of 2023. The County also held \$33,932 that is due to the district clerk custodial account at September 30, 2023.

F. Capital Assets

Capital asset activity for the year ended September 30, 2023, 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	544,383	-	-	544,383
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	14,074,802	1,454,753	319,688	15,209,867
Right to use - equipment	153,284	30,988	-	184,272
Total capital assets being depreciated	140,967,565	1,485,741	319,688	142,133,618
Less: accumulated depreciation:				
Buildings	9,744,494	202,035	-	9,946,529
Infrastructure	111,065,196	93,088	-	111,158,284
Improvements	2,354,143	36,367	-	2,390,510
Machinery and equipment	10,754,768	1,240,961	319,688	11,676,041
Right to use - equipment	41,718	45,665	-	87,383
Total accumulated depreciation	133,960,319	1,618,116	319,688	135,258,747
Total depreciable assets, net	7,007,246	(132,375)	-	6,874,871
Total capital assets	<u>\$ 7,551,629</u>	<u>\$ (132,375)</u>	<u>\$ -</u>	<u>\$ 7,419,254</u>

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

Governmental activities:	
General government	\$ 206,577
Justice system	19,865
Public safety	244,069
Corrections and rehabilitation	150,346
Health and human services	2,424
Community and economic development	1,172
Infrastructure and environmental services	<u>993,663</u>
Total governmental activities depreciation expense	<u>\$ 1,618,116</u>

G. Interfund Balances and Transfers

Interfund transfers for the fiscal year ended September 30, 2023, are summarized below:

Transfer from	Amount	Transfer to	Purpose
General fund	\$ 1,132,074	Nonmajor funds	Supplement fund sources and provide local matches to grant funds
Local Provider Participation	<u>20,000</u>	Nonmajor funds	Draw allowed administrative cost allowance from Local Provider Participation Funds
Total transfers	<u>\$ 1,152,074</u>		

Interfund balances as of September 30, 2023, are summarized below:

Receivable Fund	Payable Fund	Amount
Nonmajor special revenue fund	Nonmajor special revenue fund	\$ 1,618
		<u>\$ 1,618</u>

H. Long-term Liabilities

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2023.

	Beginning Balance	Additions	Retirements	Ending Balance	Amounts Due Within One Year
Financed purchases	\$ 1,428,671	\$ 151,356	\$ 353,943	\$ 1,226,084	\$ 366,586
Leases	111,242	30,988	46,173	96,057	42,555
Compensated absences	<u>293,505</u>	<u>352,206</u>	<u>290,234</u>	<u>355,477</u>	<u>71,096</u>
Total governmental activities	<u>\$ 1,833,418</u>	<u>\$ 534,550</u>	<u>\$ 690,350</u>	<u>\$ 1,677,618</u>	<u>\$ 480,237</u>

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

New Debt Issuances

During fiscal year 2023, the County entered into a new financed purchase for a Mack truck used in Road & Bridge operations. The financing was obtained at a fixed rate of 5.65% for the total purchase price of \$151,356. The County makes annual payments until a final balloon payment of \$114,422 of principal in fiscal year 2026.

Additionally, during fiscal year 2023, the County entered into three new copier leases of \$4,783, \$10,745, and \$15,460, totaling \$30,988. The lease liabilities were recognized over 4-year terms with imputed interest rates ranging from 0.31% to 0.56%.

Refinanced Debt

During fiscal year 2023, the County restructured payments for one of its financed purchases. The loan was associated with its 2021 Mack truck and was previously scheduled to have a final balloon payment in fiscal year 2024. The refinancing, which was completed with the same bank as the original loan, changed the remaining payoff to be due in equal annual installments of \$24,654 in fiscal years 2025 through 2028. The new interest rate is 5.83%. The refinancing changed the payable amount by approximately \$300 due to incurred document fees, which were paid by the County during the year.

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, 2023, is as follows:

	Issue Amount	Final Maturity	Interest Rate	Amounts Outstanding
First National Bank - 2021 Mack Truck	\$ 128,594	10/1/2027	5.83%	\$ 85,557
First National Bank - 2022 Peterbilt Truck	88,563	4/16/2026	2.65%	54,522
First National Bank - 2022 Mack Dump Truck	148,345	10/30/2025	2.65%	126,299
Cadence Bank - 2021 John Deere Tractor	157,853	7/14/2024	2.25%	53,103
Cadence Bank - 2020 Caterpillar 150 Joy Motor Grader	291,747	1/5/2026	2.27%	232,582
Cadence Bank - 2020 Caterpillar 150 Joy Motor Grader	291,474	2/5/2026	2.27%	152,862
Cadence Bank - 2018 Caterpillar 150 Motor Grader	160,706	7/19/2026	2.34%	97,332
Independent Bank - Election Equipment	576,381	9/24/2024	2.75%	148,528
John Deere Financial - John Deere 620G Motor Grader	212,000	1/26/2027	3.95%	123,943
First National Bank - 2024 Mack Truck	151,356	10/15/2026	5.65%	<u>151,356</u>
Total				<u>\$ 1,226,084</u>

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

Year Ended September 30,	Principal	Interest	Total
2024	\$ 366,586	\$ 34,036	\$ 400,622
2025	189,760	28,593	218,353
2026	611,522	21,020	632,542
2027	35,166	1,602	36,768
2028	<u>23,050</u>	<u>1,602</u>	<u>24,652</u>
Total	<u>\$ 1,226,084</u>	<u>\$ 86,853</u>	<u>\$ 1,312,937</u>

Leases

As of September 30, 2023, 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 2023, the County recognized interest expense of \$490.

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

Year Ended September 30,	Principal	Interest	Total
2024	\$ 42,555	\$ 354	\$ 42,909
2025	32,855	167	33,022
2026	14,139	38	14,177
2027	5,977	10	5,987
2028	<u>531</u>	<u>1</u>	<u>532</u>
Total	<u>\$ 96,057</u>	<u>\$ 570</u>	<u>\$ 96,627</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, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	198
Inactive employees entitled to but not yet receiving benefits	297
Active employees	<u>240</u>
	<u><u>735</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 7.48% and 7.44% for calendar years 2023 and 2022, 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, 2023, were \$1,194,907 and were \$355,940 greater than the required contributions.

Net Pension Liability

The County's Net Pension Liability was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2022, 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, 2022 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%	4.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
International Equities - Developed	MSCI World Ex USA (net) Index	5.00%	4.95%
International Equities - Emerging	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment-Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	Morningstar LSTA US Leveraged Loan TR USD Index	16.00%	6.95%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	7.60%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	5.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.95%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-Day U.S. Treasury	2.00%	0.20%

⁽¹⁾ Target asset allocation adopted at the March 2023 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.3% per Cliffwater's 2023 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 Liability/(Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2021	\$ 47,164,044	\$ 53,138,263	\$ (5,974,219)
Changes for the year:			
Service cost	1,202,572	-	1,202,572
Interest on total pension liability ⁽¹⁾	3,566,478	-	3,566,478
Effect of economic/demographic gains or losses	408,439	-	408,439
Refund of contributions	(172,165)	(172,165)	-
Benefit payments	(2,760,064)	(2,760,064)	-
Administrative expenses	-	(28,698)	28,698
Member contributions	-	756,952	(756,952)
Net investment income	-	(3,028,816)	3,028,816
Employer contributions	-	1,154,333	(1,154,333)
Other ⁽²⁾	-	(88,165)	88,165
Balance at 12/31/2022	<u>\$ 49,409,304</u>	<u>\$ 48,971,640</u>	<u>\$ 437,664</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	\$ 55,307,817	\$ 49,409,304	\$ 44,428,909
Fiduciary net position	<u>48,971,640</u>	<u>48,971,640</u>	<u>48,971,640</u>
Net pension liability/(asset)	<u>\$ 6,336,177</u>	<u>\$ 437,664</u>	<u>\$ (4,542,731)</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, 2023, the County recognized pension expense of \$856,801. At September 30, 2023, 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	\$ 272,295	\$ 139,619
Changes in actuarial assumptions	-	95,654
Difference between projected and actual investment earnings	828,449	-
Contributions subsequent to the measurement date	846,380	-
Total	<u>\$ 1,947,124</u>	<u>\$ 235,273</u>

\$846,380 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Pension Expense Amount
2024	\$ (764,007)
2025	84,271
2026	140,231
2027	1,404,976

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, 2023, 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, 2023, contributions by the County were \$345,540, 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>283</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	4.05% 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 1.84% as of December 31, 2021 to 4.05% as of December 31, 2022.

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 4.05% 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, 2022.

Changes in the Total OPEB Liability

The County's total OPEB liability of \$9,026,649 was measured as of December 31, 2022 and was determined by an actuarial valuation as of December 31, 2022.

	Total OPEB Liability
Balance at 12/31/2021	\$ 11,352,062
Changes for the year:	
Service cost	609,227
Interest	211,537
Difference between expected and actual experience of the total OPEB liability	(21,631)
Changes of assumptions	(2,804,365)
Benefit payments	(320,181)
Net changes	(2,325,413)
Balance at 12/31/2022	\$ 9,026,649

Changes in assumptions and other inputs reflect a change in the discount rate from 1.84% to 4.05%.

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 (4.05%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	\$ 10,156,645	\$ 9,026,649	\$ 8,078,069

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.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Total OPEB liability	\$ 8,253,259	\$ 9,026,649	\$ 9,929,742

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

For the year ended September 30, 2023, the County recognized OPEB expense of \$307,083. At September 30, 2023, the County reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,312	\$ 1,110,794
Changes in actuarial assumptions	1,501,144	3,471,837
Contributions subsequent to the measurement date	<u>281,570</u>	<u>-</u>
Total	<u>\$ 1,784,026</u>	<u>\$ 4,582,631</u>

\$281,570 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date are due to benefit payments the County paid with own assets and will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2024. Other amounts of the reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	OPEB Expense Amount
2024	\$ (513,681)
2025	(560,657)
2026	(509,937)
2027	(643,534)
2028	(729,767)
Thereafter	(122,599)

C. Risk Management

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

D. Contingent Liabilities

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

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

E. New Accounting Standards

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

GASB Statement No. 99, *Omnibus 2022* – The objective of this Statement is to correct practice issues identified during implementation and application of certain GASB Statements and financial reporting for financial guarantees. There are various effective dates 1.) upon issuance 2.) fiscal years beginning after June 15, 2022 and 3.) fiscal years beginning after June 15, 2023.

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.

GASB Statement No. 102, *Certain Risk Disclosures* - This Statement requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of Statement No. 102 are effective for fiscal years beginning after June 15, 2024, and the impact has not yet been determined.

The GASB has amended the existing standards regarding capitalization thresholds for assets. The amended guidance for the capitalization threshold comes from GASB Implementation Guide 2021-1, Question 5.1. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significantly collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers. The amended guidance is effective for reporting periods beginning after June 15, 2023, and the impact has yet to be 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, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 13,904,528	\$ 13,904,528	\$ 14,209,091	\$ 304,563
Sales	2,325,000	2,325,000	3,056,395	731,395
Mixed beverage	22,500	22,500	28,091	5,591
Fees of office	1,048,200	1,048,200	1,135,014	86,814
Intergovernmental	352,240	359,240	268,923	(90,317)
Fines and forfeitures	619,200	619,200	731,913	112,713
Interest	125,800	255,320	1,078,033	822,713
Miscellaneous	48,750	50,892	101,205	50,313
Insurance recoveries	-	37,105	39,044	1,939
Transfers	3,014,453	3,139,453	3,139,453	-
Total revenues, as classified by budget	<u>21,460,671</u>	<u>21,761,438</u>	<u>23,787,162</u>	<u>2,025,724</u>
Less: other financing sources budgeted as revenues			<u>(3,178,497)</u>	
Total revenues, as classified per GAAP			<u>20,608,665</u>	
EXPENDITURES				
County auditor	319,601	319,601	307,860	11,741
Information technology	341,315	341,315	316,746	24,569
Veterans service office	108,366	108,366	106,682	1,684
Human resources	92,033	92,033	90,795	1,238
Maintenance	475,409	475,409	344,989	130,420
Agricultural agent	202,177	202,177	195,819	6,358
Tax assessor-collector	677,660	677,660	642,669	34,991
District clerk	621,149	621,149	347,569	273,580
County clerk	465,613	465,613	426,810	38,803
Elections	456,744	456,744	425,906	30,838
County treasurer	205,582	205,582	202,759	2,823
Sheriff	3,950,216	4,005,054	3,889,850	115,204
Jail	2,863,091	2,863,091	2,737,896	125,195
County judge	203,899	203,899	202,403	1,496
County attorney	438,068	446,287	406,746	39,541
District attorney	550,380	550,380	518,508	31,872
Justice of the peace - Pct. #1	140,512	140,512	136,688	3,824
Justice of the peace - Pct. #2	143,163	143,163	134,093	9,070
Justice of the peace - Pct. #3	158,501	158,501	141,119	17,382
Justice of the peace - Pct. #4	145,554	145,554	143,907	1,647
Constable - Pct. #1	86,269	86,269	85,301	968
Constable - Pct. #2	92,197	92,197	76,438	15,759
Constable - Pct. #3	87,639	87,639	87,321	318
Constable - Pct. #4	88,589	88,589	85,642	2,947

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 709,553	\$ 709,553	\$ 487,189	\$ 222,364
369th judicial district court	466,997	466,997	311,446	155,551
County court-at-law	693,208	693,208	648,867	44,341
Transfers to other funds	714,137	1,089,137	1,089,137	-
Other departmental	1,864,692	1,864,692	1,824,794	39,898
County special	517,264	517,264	482,502	34,762
County/state special	2,500	2,500	2,823	(323)
Juvenile probation	371,246	371,246	368,814	2,432
Emergency management	79,723	79,723	77,725	1,998
Rural addressing	24,734	24,734	24,734	-
Records management	55,000	58,301	58,301	-
Department of public safety	5,000	5,000	4,902	98
Total expenditures - sub-fund 010	<u>18,417,781</u>	<u>18,859,139</u>	<u>17,435,750</u>	<u>1,423,389</u>
Solid waste - sub-fund 021	198,109	323,109	253,737	69,372
General fund special - sub-fund 025	3,170,220	3,170,220	2,961,844	208,376
Indigent health - sub-fund 045	1,166,791	1,166,791	277,393	889,398
Historical commission - sub-fund 050	<u>16,300</u>	<u>18,442</u>	<u>12,117</u>	<u>6,325</u>
Total expenditures, as classified by budget	<u>22,969,201</u>	<u>23,537,701</u>	<u>20,940,841</u>	<u>2,596,860</u>
Less: other financing uses budgeted as expenditures			<u>(4,271,527)</u>	
Total expenditures, as classified per GAAP			<u>16,669,314</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>3,939,351</u>	
OTHER FINANCING SOURCES (USES)				
Transfers out			(1,132,074)	
Proceeds from sale of assets			17,733	
Issuance of debt			15,528	
Insurance recoveries			<u>39,044</u>	
Total other financing sources (uses)			<u>(1,059,769)</u>	
NET CHANGE IN FUND BALANCES	(1,508,530)	(1,776,263)	2,879,582	4,655,845
FUND BALANCES, BEGINNING	<u>11,381,889</u>	<u>11,381,889</u>	<u>11,381,889</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 9,873,359</u>	<u>\$ 9,605,626</u>	<u>\$ 14,261,471</u>	<u>\$ 4,655,845</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, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 5,664,485	\$ 5,664,485	\$ 5,715,978	\$ 51,493
Fees of office	986,000	986,000	1,034,214	48,214
Intergovernmental	49,000	49,000	48,244	(756)
Interest	17,100	17,100	90,901	73,801
Miscellaneous	500	21,500	21,175	(325)
Total revenues	<u>6,717,085</u>	<u>6,738,085</u>	<u>6,910,512</u>	<u>172,427</u>
EXPENDITURES				
Non-departmental	651,488	651,488	630,172	21,316
Precinct 1	1,083,606	1,326,953	1,200,521	126,432
Precinct 2	1,981,610	2,338,439	1,897,616	440,823
Precinct 3	1,520,808	1,770,486	1,574,378	196,108
Precinct 4	1,411,007	1,983,130	1,143,805	839,325
License and weight division	68,566	68,566	60,715	7,851
Total expenditures	<u>6,717,085</u>	<u>8,139,062</u>	<u>6,507,207</u>	<u>1,631,855</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(1,400,977)</u>	<u>403,305</u>	<u>1,804,282</u>
OTHER FINANCING SOURCES (USES)				
Sale of assets	-	60,161	60,158	(3)
Issuance of debt	-	-	151,356	151,356
Insurance recoveries	-	43,639	43,639	-
Total other financing sources (uses)	<u>-</u>	<u>103,800</u>	<u>255,153</u>	<u>151,353</u>
NET CHANGE IN FUND BALANCES	-	(1,297,177)	658,458	1,955,635
FUND BALANCES, BEGINNING	<u>3,156,801</u>	<u>3,156,801</u>	<u>3,156,801</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 3,156,801</u>	<u>\$ 1,859,624</u>	<u>\$ 3,815,259</u>	<u>\$ 1,955,635</u>

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2023

Measurement Date December 31	2015	2016	2017
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 2015 is not available.

2018	2019	2020	2021	2022
\$ 1,067,128 3,100,722 - -	\$ 1,024,819 3,214,209 - -	\$ 1,109,990 3,386,882 - 2,351,346	\$ 1,240,102 3,484,391 - (286,964)	\$ 1,202,572 3,566,478 - -
(71,400)	499,323	(146,911)	(418,858)	408,439
<u>(2,645,346)</u>	<u>(2,661,087)</u>	<u>(2,723,645)</u>	<u>(2,870,968)</u>	<u>(2,932,229)</u>
1,451,104	2,077,264	3,977,662	1,147,703	2,245,260
<u>38,510,310</u>	<u>39,961,414</u>	<u>42,038,679</u>	<u>46,016,341</u>	<u>47,164,044</u>
<u>\$ 39,961,414</u>	<u>\$ 42,038,678</u>	<u>\$ 46,016,341</u>	<u>\$ 47,164,044</u>	<u>\$ 49,409,304</u>
\$ 1,017,651 658,824	\$ 1,038,771 697,581	\$ 1,068,756 695,515	\$ 1,086,214 708,046	\$ 1,154,333 756,952
(720,508)	5,970,424	4,268,618	9,670,734	(3,028,816)
(2,645,346)	(2,661,087)	(2,723,645)	(2,870,968)	(2,932,229)
(29,197)	(31,502)	(32,628)	(28,748)	(28,698)
<u>(25,040)</u>	<u>(25,902)</u>	<u>(24,292)</u>	<u>(18,171)</u>	<u>(88,164)</u>
(1,743,616)	4,988,285	3,252,324	8,547,107	(4,166,622)
<u>38,094,162</u>	<u>36,350,546</u>	<u>41,338,831</u>	<u>44,591,155</u>	<u>53,138,262</u>
<u>\$ 36,350,546</u>	<u>\$ 41,338,831</u>	<u>\$ 44,591,155</u>	<u>\$ 53,138,262</u>	<u>\$ 48,971,640</u>
<u>\$ 3,610,868</u>	<u>\$ 699,847</u>	<u>\$ 1,425,186</u>	<u>\$ (5,974,218)</u>	<u>\$ 437,664</u>
90.96%	98.34%	96.90%	112.67%	99.11%
\$ 9,411,766	\$ 9,411,766	\$ 9,935,922	\$ 10,114,941	\$ 10,390,430
38.37%	7.44%	14.34%	-59.06%	4.21%

CHEROKEE COUNTY, TEXAS**SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS****SEPTEMBER 30, 2023**

<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%
2023	838,967	1,194,907	(355,940)	11,229,761	10.6%

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, 2023

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 12/31/2022 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 Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected. 2022: New investment return and inflation 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. 2022: 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, 2023

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

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.

2021	2022
\$ 903,005	\$ 609,227
290,495	211,537
(1,147,336)	-
(1,253,275)	(21,631)
(1,339,426)	(2,804,365)
<u>(349,288)</u>	<u>(320,181)</u>
(2,895,825)	(2,325,413)
<u>14,247,887</u>	<u>11,352,062</u>
<u>11,352,062</u>	<u>9,026,649</u>
\$ 10,114,941	\$ 10,813,604
112.23%	83.47%

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**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2023

	Special Revenue		
	County Health Unit	Airport	Grant
ASSETS			
Cash and cash equivalents	\$ 64,076	\$ 482,114	\$ 1,444,391
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Leases	-	334,720	-
Due from other funds	-	-	-
Due from other governments	32,217	-	-
Total assets	<u>96,293</u>	<u>816,834</u>	<u>1,444,391</u>
LIABILITIES			
Accounts payable	13,999	28,908	399
Due to other funds	-	-	1,618
Accrued liabilities	11,237	2,875	1,200
Total liabilities	<u>25,236</u>	<u>31,783</u>	<u>3,217</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Related to leases	-	330,610	-
Total deferred inflows of resources	<u>-</u>	<u>330,610</u>	<u>-</u>
FUND BALANCES			
Restricted for:			
Justice system	-	-	1,441,174
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Debt service	-	-	-
Health and human services	71,057	-	-
Committed for:			
Infrastructure and environmental services	-	454,441	-
Assigned for:			
Capital projects	-	-	-
Total fund balances	<u>71,057</u>	<u>454,441</u>	<u>1,441,174</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 96,293</u>	<u>\$ 816,834</u>	<u>\$ 1,444,391</u>

Special Revenue						
Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	State Hospital/ MHMR
\$ 25,630	\$ 301,397	\$ 88,800	\$ 13,838	\$ 70,434	\$ 12,920	\$ 80,855
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	1,618	-	-	-
-	-	-	-	-	-	-
<u>25,630</u>	<u>301,397</u>	<u>88,800</u>	<u>15,456</u>	<u>70,434</u>	<u>12,920</u>	<u>80,855</u>
-	23,710	-	-	-	-	2,353
-	-	-	-	-	-	-
-	<u>11,057</u>	-	-	-	-	<u>296</u>
-	<u>34,767</u>	-	-	-	-	<u>2,649</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	266,630	-	15,456	-	-	-
25,630	-	-	-	70,434	12,920	-
-	-	88,800	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	78,206
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>25,630</u>	<u>266,630</u>	<u>88,800</u>	<u>15,456</u>	<u>70,434</u>	<u>12,920</u>	<u>78,206</u>
<u>\$ 25,630</u>	<u>\$ 301,397</u>	<u>\$ 88,800</u>	<u>\$ 15,456</u>	<u>\$ 70,434</u>	<u>\$ 12,920</u>	<u>\$ 80,855</u>

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CHEROKEE COUNTY, TEXAS**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2023

	Debt Service	Capital Projects	Total Nonmajor Governmental
ASSETS			
Cash and cash equivalents	\$ 6,147	\$ 235,651	\$ 2,826,253
Investments	67,196	-	67,196
Receivables (net of allowance for uncollectibles)			
Taxes	1,137	-	1,137
Leases	-	-	334,720
Due from other funds	-	-	1,618
Due from other governments	-	-	32,217
Total assets	<u>74,480</u>	<u>235,651</u>	<u>3,263,141</u>
LIABILITIES			
Accounts payable	-	697	70,066
Due to other funds	-	-	1,618
Accrued liabilities	-	-	26,665
Total liabilities	<u>-</u>	<u>697</u>	<u>98,349</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	1,137	-	1,137
Related to leases	-	-	330,610
Total deferred inflows of resources	<u>1,137</u>	<u>-</u>	<u>331,747</u>
FUND BALANCES			
Restricted for:			
Justice system	-	-	1,723,260
Public safety	-	-	108,984
Corrections and rehabilitation	-	-	88,800
Debt service	73,343	-	73,343
Health and human services	-	-	149,263
Committed for:			
Infrastructure and environmental services	-	-	454,441
Assigned for:			
Capital projects	-	234,954	234,954
Total fund balances	<u>73,343</u>	<u>234,954</u>	<u>2,833,045</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 74,480</u>	<u>\$ 235,651</u>	<u>\$ 3,263,141</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Special Revenue		
	County Health Unit	Airport	Grant
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	85,814	659,204	243,545
Intergovernmental	581,485	94,630	138,871
Fines and forfeitures	-	-	59,743
Interest	<u>1,495</u>	<u>12,443</u>	<u>-</u>
Total revenues	<u>668,794</u>	<u>766,277</u>	<u>442,159</u>
EXPENDITURES			
Current:			
General government	-	-	32,982
Justice system	-	-	91,767
Public safety	-	-	17,673
Corrections and rehabilitation	-	-	-
Health and human services	975,706	-	-
Infrastructure and environmental services	-	817,134	-
Capital outlay	15,460	-	-
Debt service			
Principal	3,079	-	-
Interest	<u>33</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>994,278</u>	<u>817,134</u>	<u>142,422</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(325,484)</u>	<u>(50,857)</u>	<u>299,737</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	311,528	100,000	-
Issuance of debt	<u>15,460</u>	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>326,988</u>	<u>100,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,504	49,143	299,737
FUND BALANCES, BEGINNING	<u>69,553</u>	<u>405,298</u>	<u>1,141,437</u>
FUND BALANCES, ENDING	<u>\$ 71,057</u>	<u>\$ 454,441</u>	<u>\$ 1,441,174</u>

Special Revenue						
Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account	Constables LEF Special	State Hospital/ MHMR
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	89,642	-	-	-	39,657
6,506	516,381	-	-	-	-	-
-	2,677	-	950	22,733	468	-
940	8,038	-	-	-	-	-
<u>7,446</u>	<u>527,096</u>	<u>89,642</u>	<u>950</u>	<u>22,733</u>	<u>468</u>	<u>39,657</u>
-	-	-	-	-	-	-
-	742,778	-	2,536	-	-	-
5,186	-	-	-	18,151	-	-
-	-	31,035	-	-	-	-
-	-	-	-	-	-	23,382
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>5,186</u>	<u>742,778</u>	<u>31,035</u>	<u>2,536</u>	<u>18,151</u>	<u>-</u>	<u>23,382</u>
<u>2,260</u>	<u>(215,682)</u>	<u>58,607</u>	<u>(1,586)</u>	<u>4,582</u>	<u>468</u>	<u>16,275</u>
-	320,546	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>320,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,260	104,864	58,607	(1,586)	4,582	468	16,275
<u>23,370</u>	<u>161,766</u>	<u>30,193</u>	<u>17,042</u>	<u>65,852</u>	<u>12,452</u>	<u>61,931</u>
<u>\$ 25,630</u>	<u>\$ 266,630</u>	<u>\$ 88,800</u>	<u>\$ 15,456</u>	<u>\$ 70,434</u>	<u>\$ 12,920</u>	<u>\$ 78,206</u>

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CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Debt Service	Capital Projects	Total Nonmajor Governmental
REVENUES			
Property taxes	\$ 227	\$ -	\$ 227
Fees of office	-	-	1,117,862
Intergovernmental	-	-	1,337,873
Fines and forfeitures	-	-	86,571
Interest	3,517	80	26,513
Total revenues	<u>3,744</u>	<u>80</u>	<u>2,569,046</u>
EXPENDITURES			
Current:			
General government	-	-	32,982
Justice system	-	-	837,081
Public safety	-	-	41,010
Corrections and rehabilitation	-	-	31,035
Health and human services	-	-	999,088
Infrastructure and environmental services	-	-	817,134
Capital outlay	-	317,608	333,068
Debt service			
Principal	-	-	3,079
Interest	-	-	33
Total expenditures	<u>-</u>	<u>317,608</u>	<u>3,094,510</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,744</u>	<u>(317,528)</u>	<u>(525,464)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	420,000	1,152,074
Issuance of debt	-	-	15,460
Total other financing sources and uses	<u>-</u>	<u>420,000</u>	<u>1,167,534</u>
NET CHANGE IN FUND BALANCES	3,744	102,472	642,070
FUND BALANCES, BEGINNING	<u>69,599</u>	<u>132,482</u>	<u>2,190,975</u>
FUND BALANCES, ENDING	<u>\$ 73,343</u>	<u>\$ 234,954</u>	<u>\$ 2,833,045</u>

CHEROKEE COUNTY, TEXAS**COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS**

SEPTEMBER 30, 2023

	Cash Bond	County Clerk	District Clerk
ASSETS			
Cash and equivalents	\$ 509,942	\$ 1,328,018	\$ 1,440,832
Total Assets	<u>509,942</u>	<u>1,328,018</u>	<u>1,440,832</u>
LIABILITIES			
Due to other governments	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for individuals and other governments	<u>509,942</u>	<u>1,328,018</u>	<u>1,440,832</u>
Total Net Position	<u>\$ 509,942</u>	<u>\$ 1,328,018</u>	<u>\$ 1,440,832</u>

<u>Tax Assessor/ Collector</u>	<u>District Attorney</u>	<u>CSCD</u>	<u>Sheriff</u>	<u>Total Custodial Funds</u>
<u>\$ 739,773</u>	<u>\$ 78,980</u>	<u>\$ 209,969</u>	<u>\$ 147,716</u>	<u>\$ 4,455,230</u>
<u>739,773</u>	<u>78,980</u>	<u>209,969</u>	<u>147,716</u>	<u>4,455,230</u>
<u>739,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>739,773</u>
<u>739,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>739,773</u>
<u>-</u>	<u>78,980</u>	<u>209,969</u>	<u>147,716</u>	<u>3,715,457</u>
<u>\$ -</u>	<u>\$ 78,980</u>	<u>\$ 209,969</u>	<u>\$ 147,716</u>	<u>\$ 3,715,457</u>

CHEROKEE COUNTY, TEXAS**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Cash Bond	County Clerk	District Clerk
ADDITIONS			
Fees on behalf of other governments	\$ -	\$ 510,355	\$ -
Fees on behalf of other contracting entities	-	-	-
Refunds and restitution	-	112,688	-
Court registry	-	-	1,127,560
Cash bonds	240,951	-	-
Escrow accounts	-	-	-
Interest earned	-	47,072	63,718
Miscellaneous	-	-	526
Total Additions	<u>240,951</u>	<u>670,115</u>	<u>1,191,804</u>
DEDUCTIONS			
Fees on behalf of other governments	-	176,134	-
Disbursements on behalf of contracting entities	-	-	-
Bond returns	151,650	-	-
Court registry returns	-	-	1,675,065
Refunds and restitution	-	6,571	10,000
Escrow accounts	-	-	-
Miscellaneous	-	40	-
Total Deductions	<u>151,650</u>	<u>182,745</u>	<u>1,685,065</u>
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	89,301	487,370	(493,261)
NET POSITION BEGINNING	<u>420,641</u>	<u>840,648</u>	<u>1,934,093</u>
NET POSITION, ENDING	<u>\$ 509,942</u>	<u>\$ 1,328,018</u>	<u>\$ 1,440,832</u>

<u>Tax Assessor/ Collector</u>	<u>District Attorney</u>	<u>CSCD</u>	<u>Sheriff</u>	<u>Total Custodial Funds</u>
\$ 7,556,917	\$ -	\$ -	\$ -	\$ 8,067,272
-	-	-	239,104	239,104
119,069	3,017	908,991	-	1,143,765
-	-	-	-	1,127,560
-	-	-	-	240,951
215,518	91,984	-	431,456	738,958
30,367	-	4,410	-	145,567
7,042	-	-	-	7,568
<u>7,928,913</u>	<u>95,001</u>	<u>913,401</u>	<u>670,560</u>	<u>11,710,745</u>
8,039,556	-	-	-	8,215,690
-	-	-	28,071	28,071
-	-	-	-	151,650
-	-	-	-	1,675,065
122,118	2,181	850,813	-	991,683
-	23,815	-	651,546	675,361
271	-	-	-	311
<u>8,161,945</u>	<u>25,996</u>	<u>850,813</u>	<u>679,617</u>	<u>11,737,831</u>
(233,032)	69,005	62,588	(9,057)	(27,086)
<u>233,032</u>	<u>9,975</u>	<u>147,381</u>	<u>156,773</u>	<u>3,742,543</u>
<u>\$ -</u>	<u>\$ 78,980</u>	<u>\$ 209,969</u>	<u>\$ 147,716</u>	<u>\$ 3,715,457</u>

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CHEROKEE COUNTY, TEXAS

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2023**

CHEROKEE COUNTY, TEXAS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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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, 2023, and the related notes to the financial statements, which collectively comprise Cherokee County, Texas' basic financial statements, and have issued our report thereon dated June 25, 2024.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a material weakness.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2023-002 to be a significant deficiency.

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 Questioned Costs. 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
June 25, 2024



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Cherokee County, Texas' (the "County") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended September 30, 2023. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the County's federal programs.

OFFICE LOCATIONS

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated June 25, 2024 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Waco, Texas
June 25, 2024

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Federal Grantor/Pass-through Grantor/ Program Title	Assistance Listing Number	Pass-through Grantor's Number	Expenditures
<u>U. S. Department of Justice</u>			
Passed through Texas Office of the Governor:			
Crime Victim Assistance	16.575	28978013	\$ 56,169
<i>Total Passed through Texas Office of the Governor</i>			<u>56,169</u>
<i>Total U. S. Department of Justice</i>			<u>56,169</u>
<u>U. S. Department of Transportation</u>			
Passed through Texas Department of Transportation:			
Airport Improvement Program - COVID-19	20.106	GPR-JAKS-21CRJACKS-00028	23,000
Airport Improvement Program - COVID-19	20.106	GPR-JAKS-22CVJACKS-00029	<u>59,000</u>
Subtotal Assistance Listing 20.106			<u>82,000</u>
<i>Total Passed through Texas Department of Transportation</i>			<u>82,000</u>
<i>Total U. S. Department of Transportation</i>			<u>82,000</u>
<u>U. S. Department of Treasury</u>			
Direct programs:			
Coronavirus State and Local Fiscal Recovery Fund - COVID-19	21.027		<u>1,766,773</u>
<i>Total direct programs</i>			<u>1,766,773</u>
<i>Total U. S. Department of Treasury</i>			<u>1,766,773</u>
<u>U. S. Department of Health and Human Services</u>			
Passed through Texas Department of State Health Services:			
Public Health Emergency Preparedness	93.069	537-18-0124-00001	67,855
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	HHS001096400009	12,194
Immunization Cooperative Agreements	93.268	HHS000094300001	94,919
Public Health Emergency Response	93.354	HHS001074600001	224,206
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises	93.391	HHS001057600011	81,667
Preventive Health and Health Services Block Grant	93.991	HHS001020300001	<u>40,464</u>
<i>Total Passed through Texas Department of State Health Services</i>			<u>521,305</u>
Passed through Texas Department of Family and Protective Services:			
Foster Care Title IV-E	93.658	2897801	<u>2,815</u>
<i>Total Passed through Texas Department of Family and Protective Services</i>			<u>2,815</u>
<i>Total U. S. Department of Health and Human Services</i>			<u>524,120</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$2,429,062</u>

The accompanying notes are an integral part of this schedule.

CHEROKEE COUNTY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

1. GENERAL

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. BASIS OF ACCOUNTING

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

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2023, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

4. INDIRECT COSTS

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

5. PASS-THROUGH EXPENDITURES

None of the federal programs expended by the County were passed through to subrecipients.

CHEROKEE COUNTY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Section I: Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? 2023-001

Significant deficiency(ies) identified that are not
considered a material weakness? 2023-002

Noncompliance material to financial statements
noted? None

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified that are not
considered a material weakness? None reported

Type of auditor's report issued on compliance
for major programs Unmodified

Any audit findings disclosed that are required
to be reported in accordance with 2 CFR 100.516(a) None

Identification of major programs:

Assistance Listing Number(s):	Name of Program or Cluster:
21.027	Coronavirus State and Local Fiscal Recovery Fund - COVID-19

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

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

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Section II: Findings Required to be Reported in Accordance with Government Auditing Standards

Finding 2023-001: Material Weakness - Recurring

<u>Criteria:</u>	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.
<u>Condition:</u>	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.
<u>Cause:</u>	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.
<u>Effect:</u>	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.
<u>Recommendation:</u>	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.
<u>Management's Response:</u>	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 QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

Finding 2023-001: 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, 2024

Finding 2023-002: Significant Deficiency - Recurring

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 QUESTIONED COSTS
(CONTINUED)**

FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

Finding 2023-002: 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, 2024

Section III: Federal Award Findings

None

CHEROKEE COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2023

Finding 2022-001: Material Weakness in Internal Control over Financial Reporting

Current Status: Partially corrected - current year finding. See finding 2023-001. 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 2024.

Contact Person Responsible for Corrective Action: County Auditor and County Tax Assessor-Collector

Anticipated Completion Date: September 30, 2024

Finding 2022-002: Significant Deficiency in Internal Control over Financial Reporting

Current Status: Current year finding - see finding 2023-001. The deficiency was identified during fiscal year 2022, after a significant portion of the fiscal year had already elapsed. Management is considering control changes and expects to implement more comprehensive changes during fiscal year 2024.

Contact Person Responsible for Corrective Action: County Commissioners

Anticipated Completion Date: September 30, 2024



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

We have audited the financial statements of Cherokee County, Texas as of and for the year ended September 30, 2023, and have issued our report thereon dated June 25, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated April 15, 2024, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Cherokee County, Texas solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, and other matters noted during our audit in a separate letter to you dated June 25, 2024.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, and, as appropriate, our firm have complied with all relevant ethical requirements regarding independence.

OFFICE LOCATIONS

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

As a part of the engagement, we assisted in preparing the financial statements, related notes to the financial statements, and the schedule of expenditures of federal awards of Cherokee County, Texas in conformity with U.S. generally accepted accounting principles. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards*.

In order to reduce threats to our independence caused by these nonattest services to an acceptable level, we applied certain safeguards. These safeguards include a concurring review, which is a review of the financial statements and key audit areas which is performed by an individual who has adequate experience in audits of local governments, but who was not involved in this audit engagement. The concurring reviewer serves as an evaluator of the performance of the engagement team and the nonattest services provided.

In addition, management assumed responsibility for the financial statements, related notes to the financial statements, schedule of expenditures of federal awards, and any other nonaudit services we provided. Management acknowledged, in the management representation letter, our assistance with the preparation of the financial statements, related notes to the financial statements, and the schedule of expenditures of federal awards and that these items were reviewed and approved prior to their issuance and accepted responsibility for them. Further, the nonaudit services were overseen by an individual within management that has the suitable skill, knowledge, or experience; evaluated the adequacy and results of the services; and accepted responsibility for them.

Significant Risks Identified

We have identified the following significant risks during our audit process, which required special audit consideration:

Significant Risk Identified	Reasoning for Special Audit Consideration
1. Management override of controls	Risk that members of management may override well-designed and effective internal controls.
2. County Cash	County operations require use of an unusually large number of bank accounts, multiple depositories, and many different signers.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Cherokee County, Texas is included in Note I to the financial statements. There have been no initial adoptions of significant accounting policies and no significant changes to accounting policies during the current year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management’s current judgments.

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the allowance for doubtful accounts for property tax and adjudicated fines receivable is based on a percentage of the receivable balance depending on the age of the receivable. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimates of the accumulated depreciation, the related useful lives of capital assets, and the allowance for uncollectible fines. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension and OPEB liabilities are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuary makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension and OPEB liabilities and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Cherokee County, Texas's financial statements relate to long-term liabilities. The disclosures in the financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Cherokee County, Texas' financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated June 25, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Cherokee County, Texas we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Cherokee County, Texas' auditors.

New Accounting Pronouncements

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

The GASB has amended the existing standards regarding capitalization thresholds for assets. The amended guidance for the capitalization threshold comes from GASB Implementation Guide 2021-1, Question 5.1. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. A government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers, classroom furniture and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significantly collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers. The amended guidance is effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 99, *Omnibus 2022* – The objective of this Statement is to correct practice issues identified during implementation and application of certain GASB Statements and financial reporting for financial guarantees. There are various effective dates 1.) upon issuance 2.) fiscal years beginning after June 15, 2022 and 3.) fiscal years beginning after June 15, 2023.

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.

GASB Statement No. 102, *Certain Risk Disclosures* - This Statement requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of Statement No. 102 are effective for fiscal years beginning after June 15, 2024, and the impact has not yet been determined.

Other Information Included in the Annual Financial Report

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in Cherokee County, Texas' Annual Financial Report, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the other information and considered whether a material inconsistency exists between the other information and the financial statements, or if the other information otherwise appears to be materially misstated.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Restriction on Use

This report is intended solely for the information and use of the Commissioners Court and management of Cherokee County, Texas and is not intended to be and should not be used by anyone other than these specified parties.

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

Waco, Texas
June 25, 2024