# CHEROKEE COUNTY, TEXAS

## ANNUAL FINANCIAL REPORT

## FOR THE YEAR ENDED SEPTEMBER 30, 2024

**CHEROKEE COUNTY, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2024

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**CHEROKEE COUNTY, TEXAS**

SEPTEMBER 30, 2024

**<u>COUNTY JUDGE</u>**

Chris Davis

**<u>COUNTY COMMISSIONERS</u>**

Kelly Traylor

Steven Norton

Patrick Reagan

Billy McCutcheon

**<u>COUNTY AUDITOR</u>**

Steven Daughety

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# FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

**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, 2024, 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, 2024, 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.

### *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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 30, 2025, 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 30, 2025

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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, 2024. 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 $28,413,841 (net position). Of this amount, $13,487,793 (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 $9,661,636 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 $29,191,333, an increase of $7,686,807 in comparison with the prior year. Approximately 72% of this total amount, $20,982,412, 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 $20,617,456 or 116% of the total General Fund expenditures.

- The County's long-term liabilities (government-wide) decreased by $1,652,409 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 and the Local Provider Participation Fund do not have formally adopted budgets.

**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 $28,413,841 as of September 30, 2024.

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 | |
|---|---|---|
| | 2024 | 2023 |
| Current and other assets | $ 38,508,468 | $ 34,890,925 |
| Capital assets | 8,187,479 | 7,419,254 |
| Total assets | 46,695,947 | 42,310,179 |
| | | |
| Deferred outflows - pensions | 1,224,071 | 1,947,124 |
| Deferred outflows - OPEB | 1,270,749 | 1,784,026 |
| Total deferred outflows of resources | 2,494,820 | 3,731,150 |
| | | |
| Long-term liabilities | 9,489,522 | 11,141,931 |
| Other liabilities | 5,532,029 | 10,998,679 |
| Total liabilities | 15,021,551 | 22,140,610 |
| | | |
| Deferred inflows - pensions | 282,368 | 235,273 |
| Deferred inflows - OPEB | 5,153,446 | 4,582,631 |
| Deferred inflows - leases | 319,561 | 330,610 |
| Total deferred inflows of resources | 5,755,375 | 5,148,514 |
| | | |
| Net position: | | |
| Net investment in capital assets | 6,771,918 | 6,097,113 |
| Restricted | 8,154,130 | 6,770,255 |
| Unrestricted | 13,487,793 | 5,884,837 |
| Total net position | $ 28,413,841 | $ 18,752,205 |

**Governmental Activities.** Governmental activities increased the County's net position by $9,661,636. A key element of this increase in net position was the County's total revenues increasing by $8.8 million, primarily driven by investment revenue and recognition of ARPA grant revenues.

Another element of the increase in revenue related to the Local Provider Participation Fund, which increased revenues by approximately $1.1 million for fiscal year 2024. However, due to the nature of that fund's operations, this did not significantly contribute to an increase in net position, as these revenues coincided with increased expenses for payments to the State of Texas.

## CHEROKEE COUNTY CHANGES IN NET POSITION

| | Governmental Activities | |
|---|---|---|
| | 2024 | 2023 |
| **REVENUES** | | |
| Program revenues: | | |
| Fees, fines, and charges for services | $ 4,145,089 | $ 4,112,038 |
| Operating grants and contributions | 16,607,577 | 10,043,660 |
| General revenues: | | |
| Property taxes | 21,818,404 | 20,036,763 |
| Sales and other taxes | 3,113,606 | 3,084,486 |
| Gain on disposal of capital assets | 148,096 | 243,257 |
| Investment income | 2,216,591 | 1,707,196 |
| Miscellaneous | 164,913 | 122,380 |
| Total revenues | 48,214,276 | 39,349,780 |
| **EXPENSES** | | |
| General government | 6,566,741 | 6,234,007 |
| Justice system | 4,484,960 | 3,753,148 |
| Public safety | 5,319,982 | 4,205,258 |
| Corrections and rehabilitation | 3,062,552 | 2,872,504 |
| Health and human services | 9,016,985 | 8,541,501 |
| Community and economic development | 223,208 | 207,700 |
| Infrastructure and environmental | 9,832,956 | 8,770,916 |
| Interest and fiscal charges | 45,256 | 38,213 |
| Total expenses | 38,552,640 | 34,623,247 |
| **INCREASE (DECREASE) IN NET POSITION** | 9,661,636 | 4,726,533 |
| **NET POSITION, BEGINNING** | 18,752,205 | 14,025,672 |
| **NET POSITION, ENDING** | $ 28,413,841 | $ 18,752,205 |

## 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 $29,191,333 which is an increase of $7,686,807 from last year's total of $21,504,526.

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 $20,617,456. 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 116% of the total General Fund expenditures. The increase in fund balance primarily was caused by increases to property tax revenues resulting from increased assessed values, as well as recognition of intergovernmental ARPA grant revenues discussed previously.

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, 2024, the Road and Bridge fund reported ending fund balance of $4,400,463, all of which is restricted for providing infrastructure and environmental services. This is an increase of $585,204 compared with the prior year. This increase was also primarily caused by increased property tax revenues as described for the General Fund.

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, 2024, $8,266,671 of the receipts of $10,225,868 had been spent and the remaining $1,959,197 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, 2024, the LPPF Fund reported ending fund balance of $150,643, all of which is restricted for health expenditures. As described previously, the LPPF increased revenues from the charges to local providers, which was directly expended for program costs that caused increased expenditures.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by $3,980,148. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were $2,119,837 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, 2024, the County’s net investment amounts to $8,187,479 (net of accumulated depreciation), an increase of $768,225 from the prior year. This increase is attributable to the purchase of new assets, primarily vehicles and road equipment, that exceeded disposals and continued depreciation expense.

### CHEROKEE COUNTY’S CAPITAL ASSETS

| | Capital Assets | |
|---|---|---|
| | 2024 | 2023 |
| Land | $ 544,383 | $ 544,383 |
| Buildings | 12,656,160 | 12,656,160 |
| Infrastructure | 111,539,071 | 111,448,764 |
| Improvements | 2,886,634 | 2,634,555 |
| Machinery and equipment | 17,360,326 | 15,209,867 |
| Right to use - equipment | 160,645 | 184,272 |
| Less: accumulated depreciation | (136,959,740) | (135,258,747) |
| Total capital assets, net of accumulated depreciation | $ 8,187,479 | $ 7,419,254 |

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, 2024, the County had outstanding financed purchases of $1,362,059. Principal payments of $419,097 were made on financed purchases and leases payable in the current year, and interest expense on financed purchases for the year was $45,256. The County incurred several new financed purchases totaling approximately $555,000 for fiscal year 2024 for heavy equipment used by the Road and Bridge department.

### CHEROKEE COUNTY’S OUTSTANDING DEBT

| | 2024 | 2023 |
|---|---|---|
| Financed purchases | $ 1,362,059 | $ 1,226,084 |
| Leases | 53,502 | 96,057 |
| Compensated absences | 347,135 | 355,477 |
| Total outstanding debt | $ 1,762,696 | $ 1,677,618 |

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, 2025, remained the same at 0.49000 per $100 valuation.

- Continued increases in the property values in Cherokee County are expected to provide an additional $1,017,258 of property tax revenue as compared to the fiscal year ended September 30, 2024.

## 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, 2024

| | Primary Government Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 25,935,900 |
| Investments | 7,903,072 |
| Receivables, net of allowance | 3,336,748 |
| Due from other governments | 216,618 |
| Prepaid items | 742 |
| Net pension asset | 1,115,388 |
| Capital assets: | |
| Land | 544,383 |
| Buildings and improvements | 12,656,160 |
| Infrastructure | 111,539,071 |
| Improvements other than buildings | 2,886,634 |
| Machinery and equipment | 17,360,326 |
| Right to use - equipment | 160,645 |
| Less: accumulated depreciation | (136,959,740) |
| Total capital assets | 8,187,479 |
| Total assets | 46,695,947 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Related to pensions | 1,224,071 |
| Related to OPEB | 1,270,749 |
| Total deferred outflows of resources | 2,494,820 |
| **LIABILITIES** | |
| Accounts payable | 1,188,135 |
| Accrued liabilities | 386,504 |
| Due to others | 1,196,536 |
| Unearned revenue | 2,760,854 |
| Noncurrent liabilities: | |
| Due within one year | |
| Long-term debt | 685,532 |
| Total OPEB liability | 281,263 |
| Due in more than one year | |
| Long-term debt | 1,077,164 |
| Total OPEB liability | 7,445,563 |
| Total liabilities | 15,021,551 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Related to pensions | 282,368 |
| Related to OPEB | 5,153,446 |
| Related to leases | 319,561 |
| Total deferred inflows of resources | 5,755,375 |
| **NET POSITION** | |
| Net investment in capital assets | 6,771,918 |
| Restricted | 8,154,130 |
| Unrestricted | 13,487,793 |
| Total net position | $ 28,413,841 |

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

**CHEROKEE COUNTY, TEXAS**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Functions/Programs | Expenses | Program Revenues: Fees, Fines and Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Change in Primary Government Net Position: Governmental Activities |
|---|---|---|---|---|
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | $ 6,566,741 | $ 1,352,628 | $ 6,641,369 | $ 1,427,256 |
| Justice system | 4,484,960 | 992,262 | 1,634,707 | (1,857,991) |
| Public safety | 5,319,982 | 290,408 | 41,547 | (4,988,027) |
| Corrections and rehabilitation | 3,062,552 | 266,002 | - | (2,796,550) |
| Health and human services | 9,016,985 | 94,426 | 8,143,251 | (779,308) |
| Community and economic development | 223,208 | - | - | (223,208) |
| Infrastructure and environmental services | 9,832,956 | 1,149,363 | 146,703 | (8,536,890) |
| Interest and fiscal charges | 45,256 | - | - | (45,256) |
| Total governmental activities | 38,552,640 | 4,145,089 | 16,607,577 | (17,799,974) |
| Total primary government | $ 38,552,640 | $ 4,145,089 | $ 16,607,577 | (17,799,974) |
| General revenues | | | | |
| Taxes: | | | | |
| Property taxes levied for general purpose | | | | 15,607,444 |
| Property taxes, levied for lateral roads | | | | 6,210,960 |
| Sales | | | | 3,082,480 |
| Other | | | | 31,126 |
| Gain on disposal of capital assets | | | | 148,096 |
| Investment income | | | | 2,216,591 |
| Miscellaneous | | | | 164,913 |
| Total general revenues | | | | 27,461,610 |
| Change in net position | | | | 9,661,636 |
| Net position, beginning | | | | 18,752,205 |
| Net position, ending | | | | $ 28,413,841 |

**CHEROKEE COUNTY, TEXAS**

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2024

| | General | Road and Bridge | ARP Act Grant |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 12,854,046 | $ 5,666,625 | $ 3,345,056 |
| Investments | 7,832,274 | - | - |
| Receivables (net of allowance for uncollectibles) | | | |
| Taxes | 1,872,628 | 551,711 | - |
| Accounts | 564,007 | - | 20,082 |
| Leases | - | - | - |
| Due from other governments | 84,000 | - | - |
| Prepaid items | 742 | - | - |
| Total assets | 23,207,697 | 6,218,336 | 3,365,138 |
| **LIABILITIES** | | | |
| Accounts payable | 375,248 | 150,283 | 486,552 |
| Accrued liabilities | 279,200 | 58,123 | - |
| Due to others | 96,536 | 1,100,000 | - |
| Unearned revenues | 100,000 | - | 1,959,197 |
| Total liabilities | 850,984 | 1,308,406 | 2,445,749 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Unavailable - property taxes | 1,225,975 | 509,467 | - |
| Unavailable - grants | - | - | - |
| Unavailable - court fines and fees | 513,282 | - | - |
| Related to leases | - | - | - |
| Total deferred inflows of resources | 1,739,257 | 509,467 | - |
| **FUND BALANCES** | | | |
| Restricted for: | | | |
| Justice system | - | - | - |
| Public safety | - | - | - |
| Corrections and rehabilitation | - | - | - |
| Infrastructure and environmental services | - | 4,400,463 | 919,389 |
| Debt service | - | - | - |
| Health and human services | - | - | - |
| Committed for: | | | |
| Infrastructure and environmental services | - | - | - |
| Assigned for: | | | |
| Capital projects | - | - | - |
| Unassigned | 20,617,456 | - | - |
| Total fund balances | 20,617,456 | 4,400,463 | 919,389 |
| Total liabilities, deferred inflows and fund balance | $ 23,207,697 | $ 6,218,336 | $ 3,365,138 |

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

| Local Provider Participation | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ 150,643 | $ 3,919,530 | $ 25,935,900 |
| - | 70,798 | 7,903,072 |
| | | |
| - | 1,032 | 2,425,371 |
| - | - | 584,089 |
| - | 327,288 | 327,288 |
| - | 132,618 | 216,618 |
| - | - | 742 |
| 150,643 | 4,451,266 | 37,393,080 |
| | | |
| - | 176,052 | 1,188,135 |
| - | 49,181 | 386,504 |
| - | - | 1,196,536 |
| - | 701,657 | 2,760,854 |
| - | 926,890 | 5,532,029 |
| | | |
| - | 1,032 | 1,736,474 |
| - | 100,401 | 100,401 |
| - | - | 513,282 |
| - | 319,561 | 319,561 |
| - | 420,994 | 2,669,718 |
| | | |
| - | 1,984,930 | 1,984,930 |
| - | 106,473 | 106,473 |
| - | 154,710 | 154,710 |
| - | - | 5,319,852 |
| - | 77,666 | 77,666 |
| 150,643 | 145,912 | 296,555 |
| | | |
| - | 268,735 | 268,735 |
| | | |
| - | 364,956 | 364,956 |
| - | - | 20,617,456 |
| 150,643 | 3,103,382 | 29,191,333 |
| | | |
| $ 150,643 | $ 4,451,266 | $ 37,393,080 |

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**CHEROKEE COUNTY, TEXAS**

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

SEPTEMBER 30, 2024

| | |
|---|---|
| Total fund balance - governmental funds | $ 29,191,333 |
| Amounts reported for governmental activites 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. | 8,187,479 |
| 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. | 2,350,157 |
| The net pension asset and total other post employment benefits liability reported in the governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. | (9,552,432) |
| 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. | (1,762,696) |
| Net position of governmental activities | $ 28,413,841 |

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

**CHEROKEE COUNTY, TEXAS**

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | General | Road and Bridge | ARP Act Grant |
|---|---|---|---|
| **REVENUES** | | | |
| Taxes: | | | |
| Property | $ 15,511,228 | $ 6,172,987 | $ - |
| Sales | 3,082,480 | - | - |
| Mixed beverage | 31,126 | - | - |
| Fees of office | 1,082,625 | 1,046,699 | - |
| Intergovernmental | 3,277,549 | 46,302 | 3,518,446 |
| Fines and forfeitures | 692,310 | - | - |
| Interest | 1,458,385 | 235,105 | 431,411 |
| Miscellaneous | 157,041 | 216 | - |
| Total revenues | 25,292,744 | 7,501,309 | 3,949,857 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | 5,600,174 | 679,598 | 370,750 |
| Justice system | 3,546,105 | - | 40,196 |
| Public safety | 4,361,794 | - | 337,288 |
| Corrections and rehabilitation | 2,955,754 | - | - |
| Health and human services | 478,224 | - | - |
| Community and economic development | 223,531 | - | - |
| Infrastructure and environmental services | 216,828 | 5,256,621 | 2,647,695 |
| Capital outlay | 247,457 | 1,278,565 | 122,517 |
| Debt service: | | | |
| Principal | 187,999 | 270,570 | - |
| Interest | 4,410 | 40,846 | - |
| Total expenditures | 17,822,276 | 7,526,200 | 3,518,446 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 7,470,468 | (24,891) | 431,411 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | - | - | - |
| Transfers out | (1,129,074) | - | - |
| Issuance of debt | - | 555,072 | - |
| Insurance recoveries | 14,591 | 55,023 | - |
| Total other financing sources (uses) | (1,114,483) | 610,095 | - |
| **NET CHANGE IN FUND BALANCES** | 6,355,985 | 585,204 | 431,411 |
| **FUND BALANCES, BEGINNING** | 14,261,471 | 3,815,259 | 487,978 |
| **FUND BALANCES, ENDING** | $ 20,617,456 | $ 4,400,463 | $ 919,389 |

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

| Local Provider Participation | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ - | $ 426 | $ 21,684,641 |
| - | - | 3,082,480 |
| - | - | 31,126 |
| - | 1,178,779 | 3,308,103 |
| 7,634,453 | 2,003,360 | 16,480,110 |
| - | 112,859 | 805,169 |
| 29,417 | 62,273 | 2,216,591 |
| - | 7,656 | 164,913 |
| 7,663,870 | 3,365,353 | 47,773,133 |
| | | |
| - | 28,572 | 6,679,094 |
| - | 1,122,460 | 4,708,761 |
| - | 706,530 | 5,405,612 |
| - | 85,339 | 3,041,093 |
| 7,600,000 | 982,050 | 9,060,274 |
| - | - | 223,531 |
| - | 931,477 | 9,052,621 |
| - | 389,013 | 2,037,552 |
| - | 3,083 | 461,652 |
| - | - | 45,256 |
| 7,600,000 | 4,248,524 | 40,715,446 |
| 63,870 | (883,171) | 7,057,687 |
| - | 1,149,074 | 1,149,074 |
| (20,000) | - | (1,149,074) |
| - | - | 555,072 |
| - | 4,434 | 74,048 |
| (20,000) | 1,153,508 | 629,120 |
| 43,870 | 270,337 | 7,686,807 |
| 106,773 | 2,833,045 | 21,504,526 |
| $ 150,643 | $ 3,103,382 | $ 29,191,333 |

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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, 2024

| | |
|---|---|
| Net change in fund balance - governmental funds | $ 7,686,807 |
| 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. | 768,225 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. | 293,047 |
| Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. | 461,652 |
| Issuance of long-term debt is an other financing source in the governmental funds but increases the liability in the statement of net position. | (555,072) |
| 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. | 1,006,977 |
| Change in net position of governmental activities | $ 9,661,636 |

**CHEROKEE COUNTY, TEXAS**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

SEPTEMBER 30, 2024

| | Custodial Funds |
|---|---|
| **ASSETS** | |
| Cash and equivalents | $ 3,885,297 |
| Total Assets | 3,885,297 |
| **LIABILITIES** | |
| Due to other governments | 847,059 |
| Total Liabilities | 847,059 |
| **NET POSITION** | |
| Restricted for individuals and other governments | 3,038,238 |
| Total Net Position | $ 3,038,238 |

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

**CHEROKEE COUNTY, TEXAS**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Custodial Funds |
|---|---|
| **ADDITIONS** | |
| Fees on behalf of other governments | $ 8,027,815 |
| Fees on behalf of other contracting entities | 260,148 |
| Refunds and restitution | 1,607,772 |
| Court registry | 1,539,636 |
| Cash bonds | 264,001 |
| Escrow accounts | 645,167 |
| Interest earned | 194,041 |
| Miscellaneous | 839 |
| Total Additions | 12,539,419 |
| **DEDUCTIONS** | |
| Fees on behalf of other governments | 9,150,583 |
| Disbursements on behalf of contracting entities | 24,682 |
| Bond returns | 269,950 |
| Court registery returns | 1,553,155 |
| Refunds and restitution | 1,433,050 |
| Escrow accounts | 765,957 |
| Miscellaneous | 19,261 |
| Total Deductions | 13,216,638 |
| **NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION** | (677,219) |
| **NET POSITION, BEGINNING** | 3,715,457 |
| **NET POSITION, ENDING** | $ 3,038,238 |

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

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## 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. <u>Unearned Revenue</u>

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. <u>Fund Balance Classification</u>

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, 2024, was $.4900 per $100 and was allocated as follows:

| | | |
|---|---|---|
| General fund | $ | 0.3440 |
| General fund - indigent health | | 0.0060 |
| Road and bridge fund | | 0.1400 |
| | $ | 0.4900 |

## Q. Pensions

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

## 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:

| Fund | Department | Overage |
|---|---|---|
| General | Justice of the peace - Pct. #1 | $ 1,281 |

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, 2024, 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, 2024, the County had the following investments:

| Investment Type | Reported Value | Weighted Average Maturity (days) | S&P Rating |
|---|---|---|---|
| TexStar | $ 16,316,241 | 26 | 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 statues governing public funds investment pools.

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

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

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

## C. Receivables and Allowance for Uncollectible Accounts

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

| | General | ARP Act Grant | Road and Bridge | Other Governmental | Total |
|---|---|---|---|---|---|
| Taxes receivable: | | | | | |
| Property tax | $ 2,203,468 | $ - | $ 912,955 | $ 1,707 | $ 3,118,130 |
| Sales tax | 535,740 | - | - | - | 535,740 |
| Mixed beverage tax | 5,304 | - | - | - | 5,304 |
| Court fines receivable | 10,265,646 | - | - | - | 10,265,646 |
| Leases receivable | - | - | - | 327,288 | 327,288 |
| Other receivable | 50,725 | 20,082 | - | - | 70,807 |
| Less: allowance for uncollectibles | (10,624,248) | - | (361,244) | (675) | (10,986,167) |
| Net accounts receivable | $ 2,436,635 | $ 20,082 | $ 551,711 | $ 328,320 | $ 3,336,748 |

***Leases Receivable***. The County has entered into multiple lease agreements as lessor for hangar space at the County-owned airport. During fiscal year 2024, there were 26 active agreements with annual payments ranging from $140 to $1,360. 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, 2024, the County recognized lease revenue of $11,049.

## D. Unearned Revenue

As of September 30, 2024, the County reported unearned revenue of $1,959,197, $701,657, and $100,000 in the ARP Act Grant Fund, Grant Fund, and General Fund, respectively. This is the amount of the total payment received from the ARPA grant, the Senate Bill 22 (SB22) 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, 2024, 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, 2024, the County also held $96,536 of the state portion of fines and fees collected for the third calendar quarter of 2024.

## F. Capital Assets

Capital asset activity for the year ended September 30, 2024, 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 | 111,557 | 21,250 | 111,539,071 |
| Improvements | 2,634,555 | 252,079 | - | 2,886,634 |
| Machinery and equipment | 15,209,867 | 2,219,349 | 68,890 | 17,360,326 |
| Right to use - equipment | 184,272 | - | 23,627 | 160,645 |
| Total capital assets being depreciated | 142,133,618 | 2,582,985 | 113,767 | 144,602,836 |
| Less: accumulated depreciation: | | | | |
| Buildings | 9,946,529 | 186,512 | - | 10,133,041 |
| Infrastructure | 111,158,284 | 78,751 | 21,250 | 111,215,785 |
| Improvements | 2,390,510 | 31,349 | - | 2,421,859 |
| Machinery and equipment | 11,676,041 | 1,475,772 | 68,890 | 13,082,923 |
| Right to use - equipment | 87,383 | 42,376 | 23,627 | 106,132 |
| Total accumulated depreciation | 135,258,747 | 1,814,760 | 113,767 | 136,959,740 |
| Total depreciable assets, net | 6,874,871 | 768,225 | - | 7,643,096 |
| Total capital assets | $ 7,419,254 | $ 768,225 | $ - | $ 8,187,479 |

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

| | |
|---|---|
| Governmental activities: | |
| General government | $ 221,987 |
| Justice system | 22,184 |
| Public safety | 331,763 |
| Corrections and rehabilitation | 141,490 |
| Health and human services | 8,943 |
| Community and economic development | 3,201 |
| Infrastructure and environmental services | 1,085,192 |
| Total governmental activities depreciation expense | $ 1,814,760 |

## G. Interfund Balances and Transfers

Interfund transfers for the fiscal year ended September 30, 2024, are summarized below:

| Transfer from | Amount | Transfer to | Purpose |
|---|---|---|---|
| General fund | $ 1,129,074 | Nonmajor funds | Supplement fund sources and provide local matches to grant funds |
| Local Provider Participation | 20,000 | Nonmajor funds | Draw allowed administrative cost allowance from Local Provider Participation Funds |
| Total transfers | $ 1,149,074 | | |

There were no outstanding interfund balances as of September 30, 2024.

## H. Long-term Debt

The following is a summary of the changes in long-term debt of the County for the year ended September 30, 2024.

| | Beginning Balance | Additions | Retirements | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Financed purchases | $ 1,226,084 | $ 555,072 | $ 419,097 | $ 1,362,059 | $ 583,250 |
| Leases | 96,057 | - | 42,555 | 53,502 | 32,855 |
| Compensated absences | 355,477 | 426,572 | 434,914 | 347,135 | 69,427 |
| Total governmental activities | $ 1,677,618 | $ 981,644 | $ 896,566 | $ 1,762,696 | $ 685,532 |

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

### New Debt Issuances

During fiscal year 2024, the County entered into four new financed purchases for three Mack trucks and an excavator used in Road & Bridge operations. The financing was obtained at a range of fixed rates between 5.28-7.25% for the total purchase prices of $555,072. The County makes regular payments final payoff of principal in fiscal year 2028.

### 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, 2024, is as follows:

| | Issue Amount | Final Maturity | Interest Rate | Amounts Outstanding |
|---|---|---|---|---|
| First National Bank - 2021 Mack Truck | $ 128,594 | 10/1/2027 | 5.83% | $ 66,123 |
| First National Bank - 2022 Peterbilt Truck | 88,563 | 4/16/2026 | 2.65% | 18,652 |
| First National Bank - 2022 Mack Dump Truck | 148,345 | 10/30/2025 | 2.65% | 111,147 |
| Bancorp South Bank - 2020 Caterpillar 150 Joy Motor Grader | 291,747 | 1/5/2026 | 2.27% | 204,242 |
| Bancorp South Bank - 2020 Caterpillar 150 Joy Motor Grader | 291,474 | 2/5/2026 | 2.27% | 134,236 |
| Bancorp South Bank - 2018 Caterpillar 150 Motor Grader | 160,706 | 7/19/2026 | 2.34% | 65,643 |
| John Deere Financial - John Deere 620G Motor Grader | 212,000 | 1/26/2027 | 3.95% | 88,456 |
| First National Bank - 2024 Mack Truck | 151,356 | 10/15/2026 | 5.65% | 133,396 |
| Cadence Bank - 2024 Mack Tractor/Truck - Pct. 4 | 170,376 | 11/23/2024 | 5.78% | 170,376 |
| Cadence Bank - 2024 Mack Tractor/Truck - Pct. 2 | 170,376 | 1/1/2025 | 5.78% | 170,376 |
| John Deere Financial - 75 P-Tier Excavator | 135,000 | 3/27/2028 | 7.25% | 120,092 |
| First National Bank - 2024 Mack Truck | 79,320 | 8/1/2026 | 5.28% | 79,320 |
| Total | | | | $ 1,362,059 |

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

| Year Ended September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2025 | 583,250 | 60,864 | 644,114 |
| 2026 | 683,642 | 32,059 | 715,701 |
| 2027 | 68,949 | 8,175 | 77,124 |
| 2028 | 26,218 | 408 | 26,626 |
| Total | $ 1,362,059 | $ 101,506 | $ 1,463,565 |

### Leases

As of September 30, 2024, the County had copiers leased. The lease payments range from $312 to $11,560 annually and mature at various points through fiscal year 2028. The lease liability was calculated using estimated incremental borrowing rates from 0.26% to 0.56%. During fiscal year 2024, the County recognized interest expense of $355.

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

| Year Ended September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2025 | $ 32,855 | $ 167 | $ 33,022 |
| 2026 | 14,139 | 38 | 14,177 |
| 2027 | 5,967 | 10 | 5,977 |
| 2028 | 541 | 1 | 542 |
| Total | $ 53,502 | $ 216 | $ 53,718 |

## 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, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 195 |
| Inactive employees entitled to but not yet receiving benefits | 305 |
| Active employees | 248 |
| | 748 |

**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 participate 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% for both calendar years 2023 and 2024, which were less than the County's elected contribution rate of 9.75% for 2023 and 9.99% for 2024. The County's contributions to TCDRS for the year ended September 30, 2024, were $1,315,623 and were $401,729 greater than the required contributions.

**Net Pension Asset**

The County's Net Pension Asset was measured as of December 31, 2023, and the Total Pension Liability used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2023, 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, 2023 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 7.50%. 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 2024 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% | 4.75% |
| Global Equities | MSCI World (net) Index | 2.50% | 4.75% |
| International Equities - Developed | MSCI World Ex USA (net) Index | 5.00% | 4.75% |
| International Equities - Emerging | MSCI Emerging Markets (net) Index | 6.00% | 4.75% |
| Investment-Grade Bonds | Bloomberg U.S. Aggregate Bond Index | 3.00% | 2.35% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 9.00% | 3.65% |
| Direct Lending | Morningstar LSTA US Leveraged Loan TR USD Index | 16.00% | 7.25% |
| Distressed Debt | Cambridge Associates Distressed Securities Index [3] | 4.00% | 6.90% |
| REIT Equities | 67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index | 2.00% | 4.10% |
| Master Limited Partnerships (MLPs) | Alerian MLP Index | 2.00% | 5.20% |
| 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% | 7.75% |
| Hedge Funds | Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index | 6.00% | 3.25% |
| Cash Equivalents | 90-Day U.S. Treasury | 2.00% | 6.00% |

(1) *Target asset allocation adopted at the March 2024 TCDRS Board meeting.*

(2) *Geometric real rates of return equal the expected return minus the asumed inflation rate of 2.2% per Cliffwater's 2024 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 12/31/2022 | $ 49,409,304 | $ 48,971,640 | $ 437,664 |
| Changes for the year: | | | |
| Service cost | 1,281,962 | - | 1,281,962 |
| Interest on total pension liability [1] | 3,736,881 | - | 3,736,881 |
| Effect of plan changes [2] | 1,175,511 | - | 1,175,511 |
| Effect of economic/demographic gains or losses | (423,552) | - | (423,552) |
| Refund of contributions | (207,772) | (207,772) | - |
| Benefit payments | (2,892,566) | (2,892,566) | - |
| Administrative expenses | - | (27,777) | 27,777 |
| Member contributions | - | 801,949 | (801,949) |
| Net investment income | - | 5,371,296 | (5,371,296) |
| Employer contributions | - | 1,213,491 | (1,213,491) |
| Other [3] | - | (35,105) | 35,105 |
| Balance at 12/31/2023 | $ 52,079,768 | $ 53,195,156 | $ (1,115,388) |

*[1] Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.*
*[2] Reflects an increase of the current service matching rate to 200% adopted effective in 2024.*
*[3] Relates to allocation of system-wide items.*

**Sensitivity Analysis**

The following presents the net pension liability/(asset) of the County, calculated using the discount rate of 7.60%, as well as what the County's net pension liability/(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 | $ 58,367,978 | $ 52,079,768 | $ 46,768,697 |
| Fiduciary net position | 53,195,156 | 53,195,156 | 53,195,156 |
| Net pension liability/(asset) | $ 5,172,822 | $ (1,115,388) | $ (6,426,459) |

**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, 2024, the County recognized pension expense of $532,610. At September 30, 2024, 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 | $ 136,146 | $ 282,368 |
| Changes in actuarial assumptions | - | - |
| Difference between projected and actual investment earnings | 139,517 | - |
| Contributions subsequent to the measurement date | 948,408 | - |
| Total | $ 1,224,071 | $ 282,368 |

$948,408 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as an increase to the net pension asset for the year ending September 30, 2025. 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 |
|---|---|
| 2025 | $ (395,366) |
| 2026 | (339,406) |
| 2027 | 1,066,522 |
| 2028 | (338,455) |

## 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, 2024, contributions by the County were $281,263, 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 | 61 |
| Inactive employees entitled to but not yet receiving benefits | - |
| Active employees | 228 |
| | 289 |

**Actuarial Methods and Assumptions**

Significant methods and assumptions were as follows:

| | |
|---|---|
| Actuarial Valuation Date | December 31, 2023 |
| Actuarial Cost Method | Individual Entry-Age Normal |
| Discount rate | 3.77% as of December 31, 2023 |
| 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 7.20% declining to an ultimate rate of 4.25% after 15 years.<br>Post-65: Initial rate of 5.10% declining to an ultimate rate of 4.25% after 9 years. |
| Participation rates | It was assumed that 70% of eligible retirees would choose to receive retiree health care benefits and life insurance coverage through the County. |
| Notes | The discount rate changed from 4.05% as of December 31, 2022 to 3.77% as of December 31, 2023. |

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

A Single Discount Rate of 3.77% 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, 2023.

**Changes in the Total OPEB Liability**

The County's total OPEB liability of $7,726,826 was measured as of December 31, 2023 and was determined by an actuarial valuation as of December 31, 2023.

| | Total OPEB Liability |
|---|---|
| Balance at 12/31/2022 | $ 9,026,649 |
| Changes for the year: | |
| Service cost | 473,575 |
| Interest | 369,474 |
| Difference between expected and actual experience of the total OPEB liability | (1,541,470) |
| Changes of assumptions | (320,139) |
| Benefit payments | (281,263) |
| Net changes | (1,299,823) |
| Balance at 12/31/2023 | $ 7,726,826 |

Changes in assumptions and other inputs reflect a change in the discount rate from 4.05% to 3.77%.

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.77%) in measuring the total OPEB liability.

| | 1% Decrease in Discount Rate (2.77%) | Discount Rate (3.77%) | 1% Increase in Discount Rate (4.77%) |
|---|---|---|---|
| Total OPEB Liability | $ 8,668,162 | $ 7,726,826 | $ 6,933,144 |

**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 | $ 7,139,882 | $ 7,726,826 | $ 8,405,919 |

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

For the year ended September 30, 2024, the County recognized OPEB expense of $27,849. At September 30, 2024, 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 | $ 977 | $ 2,139,992 |
| Changes in actuarial assumptions | 1,025,884 | 3,013,454 |
| Contributions subsequent to the measurement date | 243,888 | - |
| Total | $ 1,270,749 | $ 5,153,446 |

$243,888 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, 2025. 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 |
|---|---|
| 2025 | $ (862,174) |
| 2026 | (811,460) |
| 2027 | (945,055) |
| 2028 | (1,031,282) |
| 2029 | (424,119) |
| Thereafter | (52,495) |

**C. <u>Risk Management</u>**

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. <u>Contingent Liabilities</u>**

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. 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* – The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2024, and the impact has not yet been determined.

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

# REQUIRED
# SUPPLEMENTARY INFORMATION

**CHEROKEE COUNTY, TEXAS**

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes: | | | | |
| Property | $ 14,965,789 | $ 14,965,789 | $ 15,511,228 | $ 545,439 |
| Sales | 3,000,000 | 3,000,000 | 3,082,480 | 82,480 |
| Mixed beverage | 23,500 | 23,500 | 31,126 | 7,626 |
| Fees of office | 1,099,265 | 1,099,265 | 1,082,625 | (16,640) |
| Intergovernmental | 352,374 | 352,374 | 3,277,549 | 2,925,175 |
| Fines and forfeitures | 662,736 | 662,736 | 692,310 | 29,574 |
| Interest | 975,282 | 1,126,582 | 1,458,385 | 331,803 |
| Miscellaneous | 83,450 | 83,450 | 157,041 | 73,591 |
| Insurance recoveries | - | 13,491 | 14,591 | 1,100 |
| Transfers | 2,321,408 | 2,321,408 | 2,321,408 | - |
| Total revenues, as classified by budget | 23,483,804 | 23,648,595 | 27,628,743 | 3,980,148 |
| Less: other financing sources budgeted as revenues | | | (2,335,999) | |
| Total revenues, as classified per GAAP | | | 25,292,744 | |
| **EXPENDITURES** | | | | |
| County auditor | 346,097 | 346,097 | 332,812 | 13,285 |
| Information technology | 363,508 | 363,508 | 358,350 | 5,158 |
| Veterans service office | 115,080 | 115,080 | 112,766 | 2,314 |
| Human resources | 97,410 | 97,410 | 96,119 | 1,291 |
| Maintenance | 419,444 | 419,444 | 367,738 | 51,706 |
| Agricultural agent | 213,256 | 213,256 | 205,946 | 7,310 |
| Tax assessor-collector | 727,425 | 727,425 | 644,633 | 82,792 |
| District clerk | 449,447 | 449,447 | 400,575 | 48,872 |
| County clerk | 483,530 | 483,530 | 460,323 | 23,207 |
| Elections | 467,138 | 467,138 | 290,627 | 176,511 |
| County treasurer | 219,172 | 219,172 | 204,852 | 14,320 |
| Sheriff | 4,295,469 | 4,386,613 | 4,083,466 | 303,147 |
| Jail | 3,105,511 | 3,027,858 | 2,955,754 | 72,104 |
| County judge | 215,398 | 215,398 | 214,440 | 958 |
| County attorney | 469,212 | 469,212 | 416,027 | 53,185 |
| District attorney | 607,629 | 607,629 | 560,074 | 47,555 |
| Justice of the peace - Pct. #1 | 147,546 | 147,546 | 148,827 | (1,281) |
| Justice of the peace - Pct. #2 | 147,441 | 147,441 | 134,315 | 13,126 |
| Justice of the peace - Pct. #3 | 162,592 | 162,592 | 149,617 | 12,975 |
| Justice of the peace - Pct. #4 | 153,378 | 153,378 | 151,119 | 2,259 |
| Constable - Pct. #1 | 90,431 | 90,431 | 90,242 | 189 |
| Constable - Pct. #2 | 95,918 | 95,918 | 80,120 | 15,798 |
| Constable - Pct. #3 | 91,801 | 91,801 | 90,108 | 1,693 |
| Constable - Pct. #4 | 89,686 | 89,686 | 87,226 | 2,460 |

# CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|---|---|---|---|
| **EXPENDITURES** (Continued) | | | | |
| 2nd judicial district court | $ 727,885 | $ 877,885 | $ 847,915 | $ 29,970 |
| 369th judicial district court | 496,697 | 496,697 | 364,207 | 132,490 |
| County court-at-law | 719,340 | 719,340 | 688,919 | 30,421 |
| Transfers to other funds | 1,010,531 | 1,085,531 | 1,085,531 | - |
| Other departmental | 2,009,936 | 2,009,936 | 1,952,671 | 57,265 |
| County special | 392,816 | 392,816 | 369,776 | 23,040 |
| County/state special | 3,000 | 3,000 | 2,302 | 698 |
| Juvenile probation | 371,246 | 371,546 | 369,801 | 1,745 |
| Emergency management | 83,601 | 83,601 | 81,696 | 1,905 |
| Rural addressing | 24,734 | 24,734 | - | 24,734 |
| Records management | 60,000 | 61,000 | 59,970 | 1,030 |
| Department of public safety | 5,000 | 5,000 | 3,871 | 1,129 |
| Total expenditures - sub-fund 010 | 19,478,305 | 19,718,096 | 18,462,735 | 1,255,361 |
| Solid waste - sub-fund 021 | 249,103 | 249,103 | 216,636 | 32,467 |
| General fund special - sub-fund 025 | 2,222,405 | 2,222,405 | 2,222,405 | - |
| Indigent health - sub-fund 045 | 1,183,691 | 1,183,691 | 350,565 | 833,126 |
| Historical commission - sub-fund 050 | 19,300 | 19,300 | 20,417 | (1,117) |
| Total expenditures, as classified by budget | 23,152,804 | 23,392,595 | 21,272,758 | 2,119,837 |
| Less: other financing uses budgeted as expenditures | | | (3,450,482) | |
| Total expenditures, as classified per GAAP | | | 17,822,276 | |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | | | 7,470,468 | |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers out | | | (1,129,074) | |
| Insurance recoveries | | | 14,591 | |
| Total other financing sources (uses) | | | (1,114,483) | |
| **NET CHANGE IN FUND BALANCES** | 331,000 | 256,000 | 6,355,985 | 6,099,985 |
| **FUND BALANCES, BEGINNING** | 14,261,471 | 14,261,471 | 14,261,471 | - |
| **FUND BALANCES, ENDING** | $ 14,592,471 | $ 14,517,471 | $ 20,617,456 | $ 6,099,985 |

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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, 2024

| | Original Budget | Final Budget | Actual | Variance With Final Budget Positive (Negative) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 6,091,855 | $ 6,091,855 | $ 6,172,987 | $ 81,132 |
| Fees of office | 1,008,000 | 1,008,000 | 1,046,699 | 38,699 |
| Intergovernmental | 49,000 | 49,000 | 46,302 | (2,698) |
| Interest | 84,700 | 84,700 | 235,105 | 150,405 |
| Miscellaneous | 500 | 500 | 216 | (284) |
| Total revenues | 7,234,055 | 7,234,055 | 7,501,309 | 267,254 |
| **EXPENDITURES** | | | | |
| Non-departmental | 706,603 | 706,603 | 679,598 | 27,005 |
| Precinct 1 | 1,164,450 | 1,452,412 | 1,670,265 | (217,853) |
| Precinct 2 | 2,134,142 | 2,600,337 | 1,918,809 | 681,528 |
| Precinct 3 | 1,627,157 | 1,830,618 | 1,585,561 | 245,057 |
| Precinct 4 | 1,530,230 | 2,399,802 | 1,607,281 | 792,521 |
| License and weight division | 71,473 | 71,473 | 64,686 | 6,787 |
| Total expenditures | 7,234,055 | 9,061,245 | 7,526,200 | 1,535,045 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | - | (1,827,190) | (24,891) | 1,802,299 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Issuance of debt | - | - | 555,072 | 555,072 |
| Insurance recoveries | - | - | 55,023 | 55,023 |
| Total other financing sources (uses) | - | - | 610,095 | 610,095 |
| **NET CHANGE IN FUND BALANCES** | - | (1,827,190) | 585,204 | 2,412,394 |
| **FUND BALANCES, BEGINNING** | 3,815,259 | 3,815,259 | 3,815,259 | - |
| **FUND BALANCES, ENDING** | $ 3,815,259 | $ 1,988,069 | $ 4,400,463 | $ 2,412,394 |

**CHEROKEE COUNTY, TEXAS**

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

SEPTEMBER 30, 2024

| Measurement Date December 31 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ 1,030,570 | $ 1,087,069 | $ 1,187,975 | $ 1,069,643 |
| Interest total pension liability | 2,578,735 | 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 | (92,042) | (326,643) | (445,927) | (547,134) |
| Benefit payments/refunds of contributions | (1,892,238) | (2,039,552) | (2,075,536) | (2,311,282) |
| Net change in total pension liability | 1,625,025 | 1,666,491 | 1,510,831 | 1,449,288 |
| Total pension liability - beginning | 32,258,676 | 33,883,701 | 35,550,191 | 37,061,022 |
| Total pension liability - ending (a) | $ 33,883,701 | $ 35,550,192 | $ 37,061,022 | $ 38,510,310 |
| **Plan Fiduciary Net Position** | | | | |
| Employer contributions | $ 943,523 | $ 1,017,936 | $ 1,013,384 | $ 1,000,335 |
| Member contributions | 614,434 | 659,026 | 655,757 | 646,390 |
| Investment income net of investment expenses | 2,102,346 | 369,520 | 2,371,928 | 4,931,858 |
| Benefit payments refunds of contributions | (1,892,238) | (2,039,552) | (2,075,536) | (2,311,282) |
| Administrative expenses | (24,033) | (23,062) | (25,760) | (25,334) |
| Other | 17,288 | (25,403) | (144,899) | (8,943) |
| Net change in plan fiduciary net position | 1,761,320 | (41,535) | 1,794,874 | 4,233,024 |
| Plan fiduciary net position - beginning | 30,346,480 | 32,107,800 | 32,066,265 | 33,861,139 |
| Plan fiduciary net position - ending (b) | $ 32,107,800 | $ 32,066,265 | $ 33,861,139 | $ 38,094,162 |
| Net pension liability/(asset) - ending (a) - (b) | $ 1,775,901 | $ 3,483,927 | $ 3,199,883 | $ 416,148 |
| Fiduciary net position as a percentage of total pension liability | 94.76% | 90.20% | 91.37% | 98.92% |
| Pensionable covered payroll | $ 8,777,633 | $ 9,414,652 | $ 9,367,951 | $ 9,234,147 |
| Net pension liability/(asset) as a percentage of covered payroll | 20.23% | 37.01% | 34.16% | 4.51% |

| 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| $ 1,067,128 | $ 1,024,819 | $ 1,109,990 | $ 1,240,102 | $ 1,202,572 | $ 1,281,962 |
| 3,100,722 | 3,214,209 | 3,386,882 | 3,484,391 | 3,566,478 | 3,736,881 |
| - | - | - | - | - | 1,175,511 |
| - | - | 2,351,346 | (286,964) | - | - |
| (71,400) | 499,323 | (146,911) | (418,858) | 408,439 | (423,552) |
| (2,645,346) | (2,661,087) | (2,723,645) | (2,870,968) | (2,932,229) | (3,100,338) |
| 1,451,104 | 2,077,264 | 3,977,662 | 1,147,703 | 2,245,260 | 2,670,464 |
| 38,510,310 | 39,961,414 | 42,038,679 | 46,016,341 | 47,164,044 | 49,409,304 |
| $ 39,961,414 | $ 42,038,678 | $ 46,016,341 | $ 47,164,044 | $ 49,409,304 | $ 52,079,768 |
| $ 1,017,651 | $ 1,038,771 | $ 1,068,756 | $ 1,086,214 | $ 1,154,333 | $ 1,213,491 |
| 658,824 | 697,581 | 695,515 | 708,046 | 756,952 | 801,949 |
| (720,508) | 5,970,424 | 4,268,618 | 9,670,734 | (3,028,816) | 5,371,296 |
| (2,645,346) | (2,661,087) | (2,723,645) | (2,870,968) | (2,932,229) | (3,100,338) |
| (29,197) | (31,502) | (32,628) | (28,748) | (28,698) | (27,777) |
| (25,040) | (25,902) | (24,292) | (18,171) | (88,164) | (35,105) |
| (1,743,616) | 4,988,285 | 3,252,324 | 8,547,107 | (4,166,622) | 4,223,516 |
| 38,094,162 | 36,350,546 | 41,338,831 | 44,591,155 | 53,138,262 | 48,971,640 |
| $ 36,350,546 | $ 41,338,831 | $ 44,591,155 | $ 53,138,262 | $ 48,971,640 | $ 53,195,156 |
| $ 3,610,868 | $ 699,847 | $ 1,425,186 | $ (5,974,218) | $ 437,664 | $ (1,115,388) |
| 90.96% | 98.34% | 96.90% | 112.67% | 99.11% | 102.14% |
| $ 9,411,766 | $ 9,411,766 | $ 9,935,922 | $ 10,114,941 | $ 10,390,430 | $ 11,420,375 |
| 38.37% | 7.44% | 14.34% | -59.06% | 4.21% | -9.77% |

**CHEROKEE COUNTY, TEXAS**

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2024

| Fiscal Year Ended September 30, | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---|---|---|---|---|---|
| 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 | (121,016) | 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% |
| 2024 | 913,894 | 1,315,623 | (401,729) | 12,234,197 | 10.8% |

| | |
|---|---|
| **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** | 12.8 years (based on contribution rate calculated in 12/31/2023 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.<br>2017: New mortality assumptions were reflected.<br>2019: New inflation, mortality and other assumptions were reflected.<br>2022: New investment return and inflation assumptions were reflected. |
| **Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*** | 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.<br>2024: Employer contributions reflect that the current service matching rate was increased to 200% for future benefits. |

*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, 2024

| **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 | (281,057) | (315,131) | (352,447) |
| Net change in Total OPEB liability | 3,034,894 | 1,695,151 | 2,204,457 |
| Total OPEB liability - beginning | 7,313,385 | 10,348,279 | 12,043,430 |
| Total OPEB liability - ending (a) | 10,348,279 | 12,043,430 | 14,247,887 |
| **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 | 2023 |
|---|---|---|
| $ 903,005 | $ 609,227 | $ 473,575 |
| 290,495 | 211,537 | 369,474 |
| (1,147,336) | - | - |
| (1,253,275) | (21,631) | (1,541,470) |
| (1,339,426) | (2,804,365) | (320,139) |
| (349,288) | (320,181) | (281,263) |
| (2,895,825) | (2,325,413) | (1,299,823) |
| 14,247,887 | 11,352,062 | 9,026,649 |
| 11,352,062 | 9,026,649 | 7,726,826 |
| $ 10,114,941 | $ 10,813,604 | $ 11,420,375 |
| 112.23% | 83.47% | 67.66% |

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# COMBINING
# FUND STATEMENTS

**CHEROKEE COUNTY, TEXAS**

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2024

| | Special Revenue | | |
|---|---|---|---|
| | County Health Unit | Airport | Grant |
| **ASSETS** | | | |
| Cash and cash equivalents | $ 87,123 | $ 312,168 | $ 2,421,451 |
| Investments | - | - | - |
| Receivables (net of allowance for uncollectibles) | | | |
| Taxes | - | - | - |
| Leases | - | 327,288 | - |
| Due from other governments | 32,217 | 100,401 | - |
| Total assets | 119,340 | 739,857 | 2,421,451 |
| **LIABILITIES** | | | |
| Accounts payable | 2,452 | 47,710 | 17,204 |
| Accrued liabilities | 14,976 | 3,450 | 15,653 |
| Unearned revenues | - | - | 701,657 |
| Total liabilities | 17,428 | 51,160 | 734,514 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Unavailable - property taxes | - | - | - |
| Unavailable - grants | - | 100,401 | - |
| Related to leases | - | 319,561 | - |
| Total deferred inflows of resources | - | 419,962 | - |
| **FUND BALANCES** | | | |
| Restricted for: | | | |
| Justice system | - | - | 1,686,937 |
| Public safety | - | - | - |
| Corrections and rehabilitation | - | - | - |
| Debt service | - | - | - |
| Health and human services | 101,912 | - | - |
| Committed for: | | | |
| Infrastructure and environmental services | - | 268,735 | - |
| Assigned for: | | | |
| Capital projects | - | - | - |
| Total fund balances | 101,912 | 268,735 | 1,686,937 |
| Total liabilities, deferred inflows and fund balances | $ 119,340 | $ 739,857 | $ 2,421,451 |

| Special Revenue | | | | | | |
|---|---|---|---|---|---|---|
| Law Enforcement Education | Juvenile Probation | Jail Commissary | District Attorney LEF Special Account | Sheriff LEF Account | Constables LEF Special | State Hospital/ MHMR |
| $ 30,406 | $ 392,082 | $ 154,710 | $ 21,083 | $ 63,524 | $ 12,543 | $ 49,529 |
| - | - | - | - | - | - | - |
| | | | | | | |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 30,406 | 392,082 | 154,710 | 21,083 | 63,524 | 12,543 | 49,529 |
| | | | | | | |
| - | 100,899 | - | - | - | - | 4,700 |
| - | 14,273 | - | - | - | - | 829 |
| - | - | - | - | - | - | - |
| - | 115,172 | - | - | - | - | 5,529 |
| | | | | | | |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| | | | | | | |
| - | 276,910 | - | 21,083 | - | - | - |
| 30,406 | - | - | - | 63,524 | 12,543 | - |
| - | - | 154,710 | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 44,000 |
| | | | | | | |
| - | - | - | - | - | - | - |
| | | | | | | |
| - | - | - | - | - | - | - |
| 30,406 | 276,910 | 154,710 | 21,083 | 63,524 | 12,543 | 44,000 |
| | | | | | | |
| $ 30,406 | $ 392,082 | $ 154,710 | $ 21,083 | $ 63,524 | $ 12,543 | $ 49,529 |

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**CHEROKEE COUNTY, TEXAS**

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2024

| | Debt Service | Capital Projects | Total Nonmajor Governmental |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 6,868 | $ 368,043 | $ 3,919,530 |
| Investments | 70,798 | - | 70,798 |
| Receivables (net of allowance for uncollectibles) | | | |
| Taxes | 1,032 | - | 1,032 |
| Leases | - | - | 327,288 |
| Due from other governments | - | - | 132,618 |
| Total assets | 78,698 | 368,043 | 4,451,266 |
| **LIABILITIES** | | | |
| Accounts payable | - | 3,087 | 176,052 |
| Accrued liabilities | - | - | 49,181 |
| Unearned revenues | - | - | 701,657 |
| Total liabilities | - | 3,087 | 926,890 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Unavailable - property taxes | 1,032 | - | 1,032 |
| Unavailable - grants | - | - | 100,401 |
| Related to leases | - | - | 319,561 |
| Total deferred inflows of resources | 1,032 | - | 420,994 |
| **FUND BALANCES** | | | |
| Restricted for: | | | |
| Justice system | - | - | 1,984,930 |
| Public safety | - | - | 106,473 |
| Corrections and rehabilitation | - | - | 154,710 |
| Debt service | 77,666 | - | 77,666 |
| Health and human services | - | - | 145,912 |
| Committed for: | | | |
| Infrastructure and environmental services | - | - | 268,735 |
| Assigned for: | | | |
| Capital projects | - | 364,956 | 364,956 |
| Total fund balances | 77,666 | 364,956 | 3,103,382 |
| Total liabilities, deferred inflows and fund balances | $ 78,698 | $ 368,043 | $ 4,451,266 |

## CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Special Revenue | | |
|---|---|---|---|
| | County Health Unit | Airport | Grant |
| **REVENUES** | | | |
| Property taxes | $ - | $ - | $ - |
| Fees of office | 94,426 | 625,002 | 239,312 |
| Intergovernmental | 504,928 | - | 830,099 |
| Fines and forfeitures | - | - | 60,529 |
| Interest | 2,110 | 16,335 | 20,549 |
| Miscellaneous | - | - | - |
| Total revenues | 601,464 | 641,337 | 1,150,489 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | - | - | 28,572 |
| Justice system | - | - | 124,153 |
| Public safety | - | - | 686,445 |
| Corrections and rehabilitation | - | - | - |
| Health and human services | 879,054 | - | - |
| Infrastructure and environmental services | - | 931,477 | - |
| Capital outlay | - | - | 65,556 |
| Debt service: | | | |
| Principal | 3,083 | - | - |
| Total expenditures | 882,137 | 931,477 | 904,726 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | (280,673) | (290,140) | 245,763 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | 311,528 | 100,000 | - |
| Insurance recoveries | - | 4,434 | - |
| Total other financing sources and uses | 311,528 | 104,434 | - |
| **NET CHANGE IN FUND BALANCES** | 30,855 | (185,706) | 245,763 |
| **FUND BALANCES, BEGINNING** | 71,057 | 454,441 | 1,441,174 |
| **FUND BALANCES, ENDING** | $ 101,912 | $ 268,735 | $ 1,686,937 |

| Special Revenue | | | | | | |
|---|---|---|---|---|---|---|
| Law Enforcement Education | Juvenile Probation | Jail Commissary | District Attorney LEF Special Account | Sheriff LEF Account | Constables LEF Special | State Hospital/ MHMR |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | 151,249 | - | - | - | 68,790 |
| 16,579 | 651,754 | - | - | - | - | - |
| - | 15,851 | - | 18,233 | 17,655 | 591 | - |
| 1,394 | 10,830 | - | - | - | - | - |
| - | - | - | - | 7,656 | - | - |
| 17,973 | 678,435 | 151,249 | 18,233 | 25,311 | 591 | 68,790 |
| | | | | | | |
| - | - | - | - | - | - | - |
| - | 985,701 | - | 12,606 | - | - | - |
| 13,197 | - | - | - | 5,920 | 968 | - |
| - | - | 85,339 | - | - | - | - |
| - | - | - | - | - | - | 102,996 |
| - | - | - | - | - | - | - |
| - | - | - | - | 26,301 | - | - |
| - | - | - | - | - | - | - |
| 13,197 | 985,701 | 85,339 | 12,606 | 32,221 | 968 | 102,996 |
| 4,776 | (307,266) | 65,910 | 5,627 | (6,910) | (377) | (34,206) |
| - | 317,546 | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | 317,546 | - | - | - | - | - |
| 4,776 | 10,280 | 65,910 | 5,627 | (6,910) | (377) | (34,206) |
| 25,630 | 266,630 | 88,800 | 15,456 | 70,434 | 12,920 | 78,206 |
| $ 30,406 | $ 276,910 | $ 154,710 | $ 21,083 | $ 63,524 | $ 12,543 | $ 44,000 |

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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, 2024

| | Debt Service | Capital Projects | Total Nonmajor Governmental |
|---|---|---|---|
| **REVENUES** | | | |
| Property taxes | $ 426 | $ - | $ 426 |
| Fees of office | - | - | 1,178,779 |
| Intergovernmental | - | - | 2,003,360 |
| Fines and forfeitures | - | - | 112,859 |
| Interest | 3,897 | 7,158 | 62,273 |
| Miscellaneous | - | - | 7,656 |
| Total revenues | 4,323 | 7,158 | 3,365,353 |
| **EXPENDITURES** | | | |
| Current: | | | |
| General government | - | - | 28,572 |
| Justice system | - | - | 1,122,460 |
| Public safety | - | - | 706,530 |
| Corrections and rehabilitation | - | - | 85,339 |
| Health and human services | - | - | 982,050 |
| Infrastructure and environmental services | - | - | 931,477 |
| Capital outlay | - | 297,156 | 389,013 |
| Debt service | | | |
| Principal | - | - | 3,083 |
| Total expenditures | - | 297,156 | 4,248,524 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 4,323 | (289,998) | (883,171) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers in | - | 420,000 | 1,149,074 |
| Insurance recoveries | - | - | 4,434 |
| Total other financing sources and uses | - | 420,000 | 1,153,508 |
| **NET CHANGE IN FUND BALANCES** | 4,323 | 130,002 | 270,337 |
| **FUND BALANCES, BEGINNING** | 73,343 | 234,954 | 2,833,045 |
| **FUND BALANCES, ENDING** | $ 77,666 | $ 364,956 | $ 3,103,382 |

**CHEROKEE COUNTY, TEXAS**

COMBINING STATEMENT OF FIDUCIARY NET POSITION
CUSTODIAL FUNDS

SEPTEMBER 30, 2024

| | Cash Bond | County Clerk | District Clerk |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and equivalents | $ 506,493 | $ 642,133 | $ 1,468,527 |
| Total Assets | 506,493 | 642,133 | 1,468,527 |
| **LIABILITIES** | | | |
| Due to other governments | - | - | - |
| Total Liabilities | - | - | - |
| **NET POSITION** | | | |
| Restricted for individuals and other governments | 506,493 | 642,133 | 1,468,527 |
| Total Net Position | $ 506,493 | $ 642,133 | $ 1,468,527 |

| Tax Assessor/ Collector | District Attorney | CSCD | Sheriff | Total Custodial Funds |
|---|---|---|---|---|
| $ 847,059 | $ 11,486 | $ 270,529 | $ 139,070 | $ 3,885,297 |
| 847,059 | 11,486 | 270,529 | 139,070 | 3,885,297 |
| | | | | |
| 847,059 | - | - | - | 847,059 |
| 847,059 | - | - | - | 847,059 |
| | | | | |
| - | 11,486 | 270,529 | 139,070 | 3,038,238 |
| $ - | $ 11,486 | $ 270,529 | $ 139,070 | $ 3,038,238 |

**CHEROKEE COUNTY, TEXAS**

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CUSTODIAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| | Cash Bond | County Clerk | District Clerk |
|---|---|---|---|
| **ADDITIONS** | | | |
| Fees on behalf of other governments | $ - | $ - | $ - |
| Fees on behalf of other contracting entities | - | - | - |
| Refunds and restitution | - | 148,498 | - |
| Court registry | - | - | 1,539,636 |
| Cash bonds | 264,001 | - | - |
| Escrow accounts | - | - | - |
| Interest earned | - | 39,586 | 81,826 |
| Miscellaneous | - | - | 839 |
| Total Additions | 264,001 | 188,084 | 1,622,301 |
| **DEDUCTIONS** | | | |
| Fees on behalf of other governments | - | 870,626 | - |
| Disbursements on behalf of contracting entities | - | - | - |
| Bond returns | 267,450 | - | 2,500 |
| Court registery returns | - | - | 1,553,155 |
| Refunds and restitution | - | 3,343 | 38,951 |
| Escrow accounts | - | - | - |
| Miscellaneous | - | - | - |
| Total Deductions | 267,450 | 873,969 | 1,594,606 |
| **NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION** | (3,449) | (685,885) | 27,695 |
| **NET POSITION BEGINNING** | 509,942 | 1,328,018 | 1,440,832 |
| **NET POSITION, ENDING** | $ 506,493 | $ 642,133 | $ 1,468,527 |

| Tax Assessor/ Collector | District Attorney | CSCD | Sheriff | Total Custodial Funds |
|---|---|---|---|---|
| $ 8,027,815 | $ - | $ - | $ - | $ 8,027,815 |
| - | - | - | 260,148 | 260,148 |
| 274,948 | 11,309 | 1,173,017 | - | 1,607,772 |
| - | - | - | - | 1,539,636 |
| - | - | - | - | 264,001 |
| 194,009 | 22,500 | - | 428,658 | 645,167 |
| 63,565 | - | 9,064 | - | 194,041 |
| - | - | - | - | 839 |
| 8,560,337 | 33,809 | 1,182,081 | 688,806 | 12,539,419 |
| | | | | |
| 8,279,957 | - | - | - | 9,150,583 |
| - | - | - | 24,682 | 24,682 |
| - | - | - | - | 269,950 |
| - | - | - | - | 1,553,155 |
| 261,119 | 8,116 | 1,121,521 | - | 1,433,050 |
| - | 93,187 | - | 672,770 | 765,957 |
| 19,261 | - | - | - | 19,261 |
| 8,560,337 | 101,303 | 1,121,521 | 697,452 | 13,216,638 |
| | | | | |
| - | (67,494) | 60,560 | (8,646) | (677,219) |
| - | 78,980 | 209,969 | 147,716 | 3,715,457 |
| $ - | $ 11,486 | $ 270,529 | $ 139,070 | $ 3,038,238 |

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# CHEROKEE COUNTY, TEXAS

## SINGLE AUDIT REPORT

## FOR THE YEAR ENDED
## SEPTEMBER 30, 2024

**CHEROKEE COUNTY, TEXAS**

FOR THE YEAR ENDED SEPTEMBER 30, 2024

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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

**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 (the "County"), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 30, 2025.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) 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 the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control 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 County'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 2024-001 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 2024-002 to be a significant deficiency.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

**The County's Response to Findings**

The County's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The County's 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 County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas
June 30, 2025

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

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

**Report on Compliance for Each Major Federal and State Program**

***Opinion on Each Major Federal and State Program***

We have audited Cherokee County, Texas' (the "County") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* and the *State of Texas Grant Management Standards* (TxGMS) that could have a direct and material effect on each of the County's major federal and state programs for the year ended September 30, 2024. The County's major federal and state 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 and state programs for the year ended September 30, 2024.

***Basis for Opinion on Each Major Federal and State 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); and TxGMS. Our responsibilities under those standards, the Uniform Guidance, and TxGMS 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 and state 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 and state programs.

***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*, the Uniform Guidance, and TxGMS 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 and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and TxGMS, 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 and TxGMS, 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 or state 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 or state 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 or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 and TxGMS. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the State of Texas *Grant Management Standards***

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, 2024, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon, dated June 30, 2025, 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 and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and TxGMS 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 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 and state 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 30, 2025

**CHEROKEE COUNTY, TEXAS**

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

| Federal Grantor/Pass-through Grantor/ Program Title | Assistance Listing Number | Pass-through Grantor's Number | Expenditures |
|---|---|---|---|
| **Federal Awards:** | | | |
| **U. S. Department of Justice** | | | |
| Passed through Texas Office of the Governor: | | | |
| Crime Victim Assistance | 16.575 | 2897801 | $ 56,065 |
| *Total Passed through Texas Office of the Governor* | | | 56,065 |
| ***Total U. S. Department of Justice*** | | | 56,065 |
| **U. S. Department of Treasury** | | | |
| Direct programs: | | | |
| Coronavirus State and Local Fiscal Recovery Fund - COVID-19 | 21.027 | | 6,499,898 |
| *Total direct programs* | | | 6,499,898 |
| ***Total U. S. Department of Treasury*** | | | 6,499,898 |
| **U. S. Department of Health and Human Services** | | | |
| Passed through Texas Department of State Health Services: | | | |
| Public Health Emergency Preparedness | 93.069 | 537-18-0124-00001 | 89,922 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | HHS001096400009 | 20,223 |
| Immunization Cooperative Agreements | 93.268 | HHS000094300001 | 51,453 |
| Public Health Emergency Response | 93.354 | HHS001074600001 | 145,384 |
| Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crises | 93.391 | HHS001057600011 | 43,044 |
| Preventive Health and Health Services Block Grant | 93.991 | HHS001020300001 | 41,331 |
| *Total Passed through Texas Department of State Health Services* | | | 391,357 |
| Passed through Texas Department of Family and Protective Services: | | | |
| Foster Care Title IV-E | 93.658 | 2897801 | 885 |
| *Total Passed through Texas Department of Family and Protective Services* | | | 885 |
| ***Total U. S. Department of Health and Human Services*** | | | 392,242 |
| ***Total Expenditures of Federal Awards*** | | | $ 6,948,205 |

The accompanying notes are an integral part of this schedule.

# CHEROKEE COUNTY, TEXAS

## SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

## FOR THE YEAR ENDED SEPTEMBER 30, 2024

| State Grantor/Program Title | Pass-through Grantor's Number | Expenditures |
|---|---|---|
| **State Awards:** | | |
| **Office of the Texas Comptroller** | | |
| Rural Law Enforcement Grants - Senate Bill 22: County Attorney's Office | IA-0000000133 | $ 19,895 |
| Rural Law Enforcement Grants - Senate Bill 22: District Attorney's Office | IA-0000000104 | 103,448 |
| Rural Law Enforcement Grants - Senate Bill 22: Sheriff's Office | IA-0000000130 | 500,000 |
| ***Total Office of the Texas Comptroller*** | | 623,343 |
| **Texas Department of Health Services** | | |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | HHS001096400009 | 20,787 |
| Immunization Cooperative Agreements | HHS000094300001 | 51,453 |
| Preventive Health and Health Services Block Grant | HHS001020300001 | 41,331 |
| ***Total Texas Department of State Health Services*** | | 113,571 |
| **Office of the Governor** | | |
| Bullet Resistant Shield Grant Program | 4677801 | 113,599 |
| ***Total Office of the Governor*** | | 113,599 |
| **Texas Indigent Defense Commission** | | |
| Indigent Defense Services - Formula Grant | 212-23-037 | 41,885 |
| Indigent Defense Services - Formula Grant | 212-24-037 | 23,538 |
| ***Total Texas Indigent Defense Commision*** | | 65,423 |
| **Texas Office of the Attorney General** | | |
| Statewide Automated Victim Notification System | 20192044900-344-01 | 17,899 |
| ***Total Office of the Attorney General*** | | 17,899 |
| **Texas Department of Transportation** | | |
| State Assisted Airport Development Grant | 24AWJACKS | 100,401 |
| ***Total Texas Department of Transportation*** | | 100,401 |
| **Commission on State Emergency Communications** | | |
| Passed through East Texas Council of Governments | | |
| Mapping & 911 Data Base Services | n/a | 6,184 |
| *Total Passed through East Texas Council of Governments* | | 6,184 |
| ***Total Commission on State Emergency Communications*** | | 6,184 |
| ***Total Expenditures of State Awards*** | | $ 1,040,420 |
| ***Total Expenditures of Federal and State Awards*** | | $ 7,988,625 |

The accompanying notes are an integral part of this schedule.

## 1. GENERAL

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

## 2. BASIS OF ACCOUNTING

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

## 3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Grant expenditure reports as of September 30, 2024, 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 de minimis indirect cost rate as allowed in the Uniform Guidance.

## 5. PASS-THROUGH EXPENDITURES

None of the federal or state 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, 2024

**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? | 2024-001 |
| Significant deficiency(ies) identified that are not considered a material weakness? | 2024-002 |
| 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) or the *State of Texas Grant Management Standards* | None |
| Identification of major federal program: | |
| Assistance Listing Number(s): | Name of Program or Cluster: |
| 21.027 | Coronavirus State and Local Fiscal Recovery Fund - COVID-19 |
| Identification of major state program: | Name of Program: |
| | Rural Law Enforcement Grants - Senate Bill 22 |
| Dollar threshold used to distinguish between type A and type B federal programs. | $750,000 |
| Dollar threshold used to distinguish between type A and type B state programs. | $750,000 |
| Auditee qualified as low-risk auditee for federal single audit? | No |

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

### **Finding 2024-001: Material Weakness - 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 Tax Office, certain individuals possessed the ability to process cash receipts and prepare and make bank deposits with minimal or no secondary review. Additionally, amounts due to the County were often remitted for time periods of multiple weeks rather than daily, and amounts collected on behalf of the State were not reconciled to RTS, the State's online finance and collections system.

Cause:

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

Effect:

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

Recommendation:

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

Management's Response:

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

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

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

### Finding 2024-001: Material Weakness (Continued)

| | |
|---|---|
| Management's Response (Continued): | (2) 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. |
| Contact Person Responsible for Corrective Action: | County Auditor and County Tax Assessor-Collector |
| Anticipated Completion Date: | September 30, 2025 |

### Finding 2024-002: 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. |

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

### Finding 2024-002: 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, 2025 |

## Section III: Federal Award Findings

*None*

**CHEROKEE COUNTY, TEXAS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2024

Finding 2022-001 (recurring as item 2023-001): Material Weakness in Internal Control over Financial Reporting

| | |
|---|---|
| Current Status: | Partially corrected – current year finding. See finding 2023-0001. The deficiency was identified during fiscal year 2022. The county purchased new software in Fiscal Year 2024 that was expected to allow bank reconciliations in the Tax Office to occur using it, but that part of the software was not fully utilized by September 30, 2024. Additional training has occurred on the software in Fiscal Year 2025, and it is expected that this will take care of that ongoing concern. The Auditor's office would like to see further segregation of cash handling and reporting duties within the office, with a process of the property tax and vehicle clerks checking the other components work as a means of review OR other office procedures that separates the creation and modification of collection entries from the reconciliation, reporting and remitting of funds. |
| Contact Person Responsible for Corrective Action: | County Auditor and County Tax Assessor-Collector |
| Anticipated Completion Date: | September 30, 2025 |

Finding 2022-002 (recurring as item 2023-002): 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. The Auditor's office is recommending that the Commissioners' Court develop a Solid Waste Fee Schedule and to post it on the county website and at the Solid Waste location. We also request that a log be developed and maintained at the site that the customer would sign after bringing their waste material and paying county staff to verify the amount collected by the county. |
| Contact Person Responsible for Corrective Action: | County Commissioners |
| Anticipated Completion Date: | September 30, 2025 |

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PATTILLO, BROWN & HILL, L.L.P.
401 West State Highway 6
Waco, Texas 76710
254.772.4901 | pbhcpa.com

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

We have audited the financial statements of Cherokee County, Texas (the "County") as of and for the year ended September 30, 2024, and have issued our report thereon dated June 30, 2025. 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 March 31, 2025, 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 the County 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 30, 2025.

**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.

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 and state awards of the County in conformity with U.S. generally accepted accounting principles, the OMB *Uniform Guidance*, and *Texas Grant Management Standards* based on information provided by management. 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 and state 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 and state 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 the County 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 historical analysis of the collectability of these receivables. We evaluated key factors and assumptions used to develop the allowance and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

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 and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Management's estimates of the pension liability, OPEB liability, and pension and OPEB expense are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the pension liability, OPEB liability, and pension and OPEB expense 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 the County's financial statements relate to the pension and OPEB liabilities.

**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 the County's 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 30, 2025.

**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 the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, 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 the County's 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:

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.

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability and address certain application issues. The requirements for Statement No. 103 are effective for fiscal years beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, 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 the County's 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 the County 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 30, 2025