

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2020

CHEROKEE COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2020

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INTRODUCTORY SECTION

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CHEROKEE COUNTY, TEXAS

SEPTEMBER 30, 2020

COUNTY JUDGE

Chris Davis

COUNTY COMMISSIONERS

Kelly Traylor

Steven Norton

Patrick Reagan

Billy McCutcheon

COUNTY AUDITOR

Steven Daughety

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Texas, (the "County"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cherokee County, Texas, as of September 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OFFICE LOCATIONS

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



Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2021, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Waco, Texas
July 8, 2021

**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, 2020. 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 \$6,966,193 (net position). Of this amount, \$4,138,845 is a deficit of unrestricted net position.
- The County's total net position (government-wide) increased by \$1,960,721 due to operations. The primary cause for this increase was a decrease in the OPEB expense recognized by the County resulting from a change in benefit terms in the prior year.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$11,032,459, an increase of \$3,031,975 in comparison with the prior year. Approximately 55% of this total amount, \$6,020,086, is available for spending at the County's discretion (unassigned and assigned fund balance). The primary cause of this increase was an increase in property tax revenue.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,037,008 or 37% of the total General Fund expenditures.
- The County's long-term liabilities (government-wide) decreased by \$1,330,101 during the current fiscal year. The primary cause of this decrease was a reduction in the County's net pension liability during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Cherokee County, assets and deferred outflows exceeded liabilities and deferred inflows by \$6,966,193 as of September 30, 2020.

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	
	2020	2019
Current and other assets	\$ 15,119,358	\$ 12,187,681
Capital assets	7,157,566	7,822,264
Total assets	22,276,924	20,009,945
Deferred outflows - pensions	1,050,563	3,013,120
Deferred outflows - OPEB	1,762,150	548,609
Total deferred outflows of resources	2,812,713	3,561,729
Long-term liabilities	13,993,676	15,323,777
Other liabilities	2,085,181	2,303,552
Total liabilities	16,078,857	17,627,329
Deferred inflows - pensions	1,199,544	432,649
Deferred inflows - OPEB	845,043	506,224
Total deferred inflows of resources	2,044,587	938,873
Net position:		
Net investment in capital assets	6,170,517	6,718,765
Restricted	4,934,521	4,264,373
Unrestricted	(4,138,845)	(5,977,666)
Total net position	\$ 6,966,193	\$ 5,005,472

Governmental Activities. Governmental activities increased Cherokee County’s net position by \$1,960,721. A key element of this increase in net position was a \$3,319,255 decrease in fiscal year 2020 expenses as compared to fiscal year 2019, primarily in the general government, justice system, and public safety functions. This decrease in expenses occurred primarily as the result of a decrease in OPEB expense related to the County's retiree health insurance plan, which had a change in benefit terms of \$3,267,379 in fiscal year 2019. Total revenues increased by \$1,495,190, primarily driven by an increase in property tax revenue.

CHEROKEE COUNTY CHANGES IN NET POSITION

	Governmental Activities	
	2020	2019
REVENUES		
Program revenues:		
Fees, fines, and charges for services	\$ 3,313,156	\$ 3,638,180
Operating grants and contributions	2,104,201	1,787,199
General revenues:		
Property taxes	17,146,444	15,600,857
Sales and other taxes	2,218,408	1,986,702
Gain on disposal of capital assets	-	144,932
Investment income	181,406	319,555
Miscellaneous	168,440	159,440
Total revenues	25,132,055	23,636,865
EXPENSES		
General government	5,740,810	6,913,136
Justice system	3,701,058	4,561,192
Public safety	3,364,744	3,882,312
Corrections and rehabilitation	2,741,615	2,983,564
Health and human services	1,342,126	1,511,219
Community and economic development	187,141	190,772
Infrastructure and environmental	6,046,238	6,409,895
Interest and fiscal charges	47,602	38,499
Total expenses	23,171,334	26,490,589
INCREASE (DECREASE) IN NET POSITION	1,960,721	(2,853,724)
NET POSITION, BEGINNING	5,005,472	7,451,379
PRIOR PERIOD ADJUSTMENT	-	407,817
NET POSITION, BEGINNING, RESTATED	5,005,472	7,859,196
NET POSITION, ENDING	\$ 6,966,193	\$ 5,005,472

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 \$11,032,459 which is an increase of \$3,031,975 from last year's total of \$8,000,484.

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 \$5,037,008. 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 37% of the total General Fund expenditures. Additionally, revenues increased primarily because of increases to property tax revenue that covered expenditures, which decreased from the prior year.

The Road and Bridge fund, a major governmental special revenue fund, accounts for taxes collected and expenditures incurred for maintenance and improvement of County infrastructure. As of September 30, 2020, the Road and Bridge fund reported ending fund balance of \$2,702,162, all of which is restricted for providing infrastructure and environmental services. This is an increase of \$384,740 compared with the prior year. The primary cause of this due to increases in revenues amounting to \$360,959, primarily from increased property taxes.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total actual revenues, as classified in the budget, exceeded final budgeted amounts by \$2,027,586. A review of actual expenditures compared to the appropriations in the final budget yields no significant overspending. Total actual expenditures were \$1,641,548 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, 2020, the County’s net investment amounts to \$7,157,566 (net of accumulated depreciation), a decrease of \$664,698 from the prior year. This decrease is attributable to depreciation expense and disposals for the year exceeding purchases of new assets.

CHEROKEE COUNTY’S CAPITAL ASSETS

	Capital Assets	
	2020	2019
Land	\$ 544,383	\$ 544,383
Buildings	12,656,160	12,581,299
Infrastructure	111,448,764	111,448,764
Improvements	2,634,555	2,634,555
Machinery and other equipment	12,394,364	12,477,811
Less: accumulated depreciation	(132,520,660)	(131,864,548)
Total capital assets, net of accumulated depreciation	\$ <u>7,157,566</u>	\$ <u>7,822,264</u>

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

LONG-TERM DEBT

At September 30, 2020, the County had outstanding notes payable of \$987,049. Principal payments of \$512,931 were made on notes payable in the current year, and interest expense on notes payable for the year was \$47,602. Additional information on the County’s long-term debt can be found in the notes to the financial statements.

CHEROKEE COUNTY’S OUTSTANDING DEBT

	2020	2019
Notes payable	\$ 987,049	\$ 1,103,499
Compensated absences	<u>263,350</u>	<u>261,131</u>
Total outstanding debt	\$ <u>1,250,399</u>	\$ <u>1,364,630</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The tax rate for the fiscal year ended September 30, 2021, decreased from .5950 in fiscal year 2020 to .58286 per \$100 valuation.
- Continued increases in the property values in Cherokee County are expected to provide an additional \$956,771 of property tax revenue as compared to the fiscal year ended September 30, 2020.

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**

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CHEROKEE COUNTY, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash and cash equivalents	\$ 8,757,372
Investments	3,292,873
Receivables, net of allowance	2,538,213
Due from other governments	530,900
Capital assets:	
Land	544,383
Buildings and improvements	12,656,160
Infrastructure	111,448,764
Improvements other than buildings	2,634,555
Equipment	12,394,364
Less: accumulated depreciation	(132,520,660)
Total capital assets	<u>7,157,566</u>
Total assets	<u>22,276,924</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pensions	1,050,563
Deferred outflows - OPEB	<u>1,762,150</u>
Total deferred outflows of resources	<u>2,812,713</u>
LIABILITIES	
Accounts payable	361,356
Accrued liabilities	469,420
Due to others	1,241,121
Unearned revenue	13,284
Noncurrent liabilities:	
Due within one year	
Long-term debt	925,213
Total OPEB liability	315,131
Due in more than one year	
Long-term debt	325,186
Net pension liability	699,847
Total OPEB liability	<u>11,728,299</u>
Total liabilities	<u>16,078,857</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	1,199,544
Deferred inflows - OPEB	<u>845,043</u>
Total deferred inflows of resources	<u>2,044,587</u>
NET POSITION	
Net investment in capital assets	6,170,517
Restricted	4,934,521
Unrestricted	(4,138,845)
Total net position	<u>\$ 6,966,193</u>

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

CHEROKEE COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Functions/Programs	Expenses for Services	Program Revenues Fees, Fines and Charges for Services
Primary government		
Governmental activities:		
General government	\$ 5,740,810	\$ 1,079,998
Justice system	3,701,058	742,611
Public safety	3,364,744	301,382
Corrections and rehabilitation	2,741,615	175,037
Health and human services	1,342,126	89,765
Community and economic development	187,141	-
Infrastructure and environmental services	6,046,238	924,363
Interest and fiscal charges	47,602	-
Total governmental activities	23,171,334	3,313,156
Total primary government	\$ 23,171,334	\$ 3,313,156
	General revenues	
	Taxes:	
	Property taxes levied for general purposes	
	Property taxes, levied for lateral roads	
	Property taxes, levied for debt service	
	Sales	
	Other	
	Investment income	
	Miscellaneous	
	Total general revenues	
	Change in net position	
	Net position, beginning	
	Net position, ending	

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

<u>Program Revenues</u>	<u>Net (Expense) Revenue and Change in Primary Government Net Position</u>
<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
\$ 12,845	\$(4,647,967)
969,868	(1,988,579)
408,535	(2,654,827)
4,651	(2,561,927)
659,548	(592,813)
-	(187,141)
48,754	(5,073,121)
-	(47,602)
<u>2,104,201</u>	<u>(17,753,977)</u>
<u>\$ 2,104,201</u>	<u>(17,753,977)</u>

12,163,352
4,982,977
115
2,198,669
19,739
181,406
168,440
<u>19,714,698</u>
1,960,721
<u>5,005,472</u>
<u>\$ 6,966,193</u>

CHEROKEE COUNTY, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,721,776	\$ 3,902,178	\$ 2,133,418	\$ 8,757,372
Investments	3,229,873	-	63,000	3,292,873
Receivables (net of allowance for uncollectibles)				
Taxes	1,652,982	524,921	4,658	2,182,561
Accounts	355,652	-	-	355,652
Due from other governments	312,382	-	218,518	530,900
Total assets	<u>8,272,665</u>	<u>4,427,099</u>	<u>2,419,594</u>	<u>15,119,358</u>
LIABILITIES				
Accounts payable	241,746	85,470	34,140	361,356
Accrued liabilities	424,531	27,809	17,080	469,420
Due to others	111,121	1,130,000	-	1,241,121
Unearned revenues	13,284	-	-	13,284
Total liabilities	<u>790,682</u>	<u>1,243,279</u>	<u>51,220</u>	<u>2,085,181</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable - property taxes	1,161,157	481,658	3,251	1,646,066
Unavailable - court fines and fees	355,652	-	-	355,652
Total deferred inflows of resources	<u>1,516,809</u>	<u>481,658</u>	<u>3,251</u>	<u>2,001,718</u>
FUND BALANCES				
Restricted for:				
Justice system	-	-	943,760	943,760
Public safety	-	-	61,557	61,557
Corrections and rehabilitation	-	-	82,722	82,722
Health and human services	-	-	645,479	645,479
Infrastructure and environmental services	-	2,702,162	-	2,702,162
Debt service	-	-	67,231	67,231
Committed for:				
Health and human services	-	-	151,859	151,859
Infrastructure and environmental services	-	-	357,603	357,603
Assigned for:				
Subsequent year's budget	928,166	-	-	928,166
Capital projects	-	-	54,912	54,912
Unassigned	5,037,008	-	-	5,037,008
Total fund balances	<u>5,965,174</u>	<u>2,702,162</u>	<u>2,365,123</u>	<u>11,032,459</u>
Total liabilities, deferred inflows and fund balance	\$ <u>8,272,665</u>	\$ <u>4,427,099</u>	\$ <u>2,419,594</u>	\$ <u>15,119,358</u>

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

CHEROKEE COUNTY, TEXAS

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

SEPTEMBER 30, 2020

Total fund balance - governmental funds	\$ 11,032,459
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,157,566
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.	2,001,718
The net pension liability and total other post employment benefits liability reported in the governmental activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(11,975,151)
Long-term liabilities, including notes payable and compensated absences, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	(<u>1,250,399</u>)
Net position of governmental activities	\$ <u>6,966,193</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes:				
Property	\$ 12,087,235	\$ 4,952,816	\$ 382	\$ 17,040,433
Sales	2,198,669	-	-	2,198,669
Mixed beverage	19,739	-	-	19,739
Fees of office	877,928	967,507	842,965	2,688,400
Intergovernmental	672,143	48,754	1,368,449	2,089,346
Fines and forfeitures	566,614	-	60,935	627,549
Interest	140,038	28,378	12,990	181,406
Miscellaneous	57,550	110,890	-	168,440
Total revenues	<u>16,619,916</u>	<u>6,108,345</u>	<u>2,285,721</u>	<u>25,013,982</u>
EXPENDITURES				
Current:				
General government	4,823,547	578,436	50,144	5,452,127
Justice system	2,593,269	-	951,329	3,544,598
Public safety	3,004,147	-	52,122	3,056,269
Corrections and rehabilitation	2,420,637	-	85,031	2,505,668
Health and human services	293,178	-	996,744	1,289,922
Community and economic development	180,168	-	-	180,168
Infrastructure and environmental services	139,110	4,627,541	480,403	5,247,054
Capital outlay	137,375	358,712	86,400	582,487
Debt service:				
Principal	-	512,931	-	512,931
Interest	-	47,602	-	47,602
Total expenditures	<u>13,591,431</u>	<u>6,125,222</u>	<u>2,702,173</u>	<u>22,418,826</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>3,028,485</u>	<u>(16,877)</u>	<u>(416,452)</u>	<u>2,595,156</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	789,406	789,406
Transfers out	(729,406)	-	(60,000)	(789,406)
Proceeds from debt issuance	-	396,481	-	396,481
Insurance recoveries	24,957	5,136	10,245	40,338
Total other financing sources (uses)	<u>(704,449)</u>	<u>401,617</u>	<u>739,651</u>	<u>436,819</u>
NET CHANGE IN FUND BALANCES	2,324,036	384,740	323,199	3,031,975
FUND BALANCES, BEGINNING	<u>3,641,138</u>	<u>2,317,422</u>	<u>2,041,924</u>	<u>8,000,484</u>
FUND BALANCES, ENDING	<u>\$ 5,965,174</u>	<u>\$ 2,702,162</u>	<u>\$ 2,365,123</u>	<u>\$ 11,032,459</u>

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

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

Net change in fund balance - governmental funds	\$ 3,031,975
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(664,698)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	118,073
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	512,931
Issuance of long-term debt is an other financing source in the governmental funds but increases the liability in the statement of net position.	(396,481)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(<u>641,079</u>)
Change in net position of governmental activities	\$ <u>1,960,721</u>

CHEROKEE COUNTY, TEXAS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

SEPTEMBER 30, 2020

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>2,468,465</u>
Total assets	<u>2,468,465</u>
LIABILITIES	
Due to others	<u>2,468,465</u>
Total liabilities	<u>\$ 2,468,465</u>

CHEROKEE COUNTY, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the County reflected in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), in Governmental Accounting and Financial Reporting Standards. The most significant accounting and reporting policies of the County are described below.

A. Description of the Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. The governmental activities presented in the government-wide financial statements are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

Cherokee County (the "County") was created and organized in 1846 from Nacogdoches County by an act of the Texas Legislature. The Commissioners' Court, which is comprised of four commissioners and the County Judge, is the governing body of the County. As authorized by the statutes of the State of Texas, the County provides the following services: general government (e.g., tax collection), justice system (e.g., courts, juries, district attorney, etc.), public safety (e.g., sheriff, etc.), corrections (e.g., jail), health and human services (e.g., indigent health care), infrastructure and environmental services (e.g., road maintenance and repair) and economic development.

In determining the financial reporting entity, Cherokee County, Texas complies with the provisions of GASB Statement No. 14, The Financial Reporting Entity. Under this standard, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

General Fund – The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

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

The County also reports fiduciary funds:

Agency Funds – Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

During the course of operations, the County has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, balances between the funds included in governmental activities are eliminated in the preparation of government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. These transfers are reported in fund financial statements but are eliminated in the preparation of government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Cash and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments. From time to time, the County invests its available funds in time deposits and other short-term interest-bearing securities. Time deposits and securities having a maturity date of three months or less from the date of issuance are classified as cash while those with a maturity of more than three months are classified as investments. Investments for the County are reported at fair value, except for the position in investment pools. 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

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

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

H. Deferred Outflows/Inflows of Resources

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has the following items that qualify for reporting in this category:

- Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The governmental funds report unavailable revenues from three sources: property taxes, court fines and fees, and grants.

- Difference in 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. Fund Balance Classification

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

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

J. Fund Balance Flow Assumption

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

K. Net Position Flow Assumption

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

L. Program Revenues

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

M. Compensated Absences

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

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

N. Property Taxes

Ad valorem taxes are levied October 1 of each year and are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes become delinquent on February 1 following the year in which levied. Taxes on real property attach as an enforceable lien on January 1 of the year in which levied and are a lien against such property until paid. The combined tax rate for the year ended September 30, 2020, was \$.5950 per \$100 and was allocated as follows:

General fund	\$	0.4120
General fund - indigent health		0.0080
Road and bridge fund		<u>0.1750</u>
	\$	<u>0.5950</u>

O. Pensions

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

P. Other Post-employment Benefits (OPEB)

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

Q. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

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

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

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

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

<u>Fund</u>	<u>Department</u>	<u>Overage</u>
General	Justice of the peace - Pct. #1	\$ 2,856
	Justice of the peace - Pct. #4	1,487
	Constable - Pct. #1	505
	369th judicial district court	20,665
	Transfers to other funds	48,000
	Records management	100
Road and bridge	Precinct 2	182,249
	Precinct 3	224,645

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, 2020, 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, 2020, the County had the following investments:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (days)</u>	<u>S&P Rating</u>
TexStar	\$ 32,460	44	AAAm
Certificate of Deposit	3,260,413	101	N/A

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

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

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

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

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

C. Receivables and Allowance for Uncollectible Accounts

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Taxes receivable:				
Property tax	\$ 2,134,416	\$ 885,700	\$ 5,435	\$ 3,025,551
Sales tax	382,462	-	-	382,462
Mixed beverage tax	5,531	-	-	5,531
Court fines receivable	7,113,046	-	-	7,113,046
Less: allowance for uncollectibles	(7,626,821)	(360,779)	(777)	(7,988,377)
Net accounts receivable	\$ 2,008,634	\$ 524,921	\$ 4,658	\$ 2,538,213

D. Unearned Sales Tax Revenue

In October of 1996, the County entered into an agreement with the State Comptroller to repay \$332,207 of local sales tax which was paid to the County in error. The agreement states that \$1,214 will be withheld from the County's sales tax revenues in October 1996, the first month of repayment, and \$1,107 will be withheld in each subsequent month until the year 2021. The remaining balance to be repaid at September 30, 2020, is \$13,284, and is recorded as unearned revenue.

E. Due to Others

At September 30, 2020, the County held \$1,130,000 on deposit by a third party to cover potential repair expenses in the event of road damages resulting from third party activities. At September 30, 2020, the County also held \$111,121 of the state portion of fines and fees collected for the third calendar quarter of 2020.

F. Capital Assets

Capital asset activity for the year ended September 30, 2020, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets not depreciated:				
Land	\$ 544,383	\$ -	\$ -	\$ 544,383
Total capital assets not being depreciated	<u>544,383</u>	<u>-</u>	<u>-</u>	<u>544,383</u>
Capital assets being depreciated:				
Buildings	12,581,299	74,861	-	12,656,160
Infrastructure	111,448,764	-	-	111,448,764
Improvements	2,634,555	-	-	2,634,555
Machinery and other equipment	<u>12,477,811</u>	<u>496,448</u>	<u>579,895</u>	<u>12,394,364</u>
Total capital assets being depreciated	139,142,429	571,309	579,895	139,133,843
Less: accumulated depreciation:				
Buildings	9,138,427	202,976	-	9,341,403
Infrastructure	110,657,878	136,020	-	110,793,898
Improvements	2,181,720	99,499	-	2,281,219
Machinery and other equipment	<u>9,886,523</u>	<u>688,815</u>	<u>471,198</u>	<u>10,104,140</u>
Total capital assets being depreciated	131,864,548	1,127,310	471,198	132,520,660
Total depreciable assets, net	<u>7,277,881</u>	<u>(556,001)</u>	<u>108,697</u>	<u>6,613,183</u>
Total capital assets	<u>\$ 7,822,264</u>	<u>\$ (556,001)</u>	<u>\$ 108,697</u>	<u>\$ 7,157,566</u>

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

Governmental activities:	
General government	\$ 59,260
Justice system	19,403
Public safety	186,103
Corrections and rehabilitation	159,462
Health and human services	17,306
Community and economic development	4,263
Infrastructure and environmental services	<u>681,513</u>
Total governmental activities depreciation expense	<u>\$ 1,127,310</u>

G. Transfers

Interfund transfers for the fiscal year ended September 30, 2020, are summarized below:

<u>Transfer from</u>	<u>Amount</u>	<u>Transfer to</u>	<u>Purpose</u>
General fund	\$ 729,406	Nonmajor funds	Supplement fund sources and provide local matches to grant funds
Nonmajor funds	<u>60,000</u>	Nonmajor funds	Draw allowed administrative cost allowance from Local Provider Participation Funds
Total transfers	\$ <u>789,406</u>		

H. Long-term Liabilities

The following is a summary of the changes in long-term liabilities of the County for the year ended September 30, 2020.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Notes payable - direct borrowing	\$ 1,103,499	\$ 396,481	\$ 512,931	\$ 987,049	\$ 872,543
Compensated absences	<u>261,131</u>	<u>320,763</u>	<u>318,544</u>	<u>263,350</u>	<u>52,670</u>
Total governmental activities	\$ <u>1,364,630</u>	\$ <u>717,244</u>	\$ <u>831,475</u>	\$ <u>1,250,399</u>	\$ <u>925,213</u>

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

Notes Payable

The notes payable outstanding at September 30, 2020, were issued for the purpose of obtaining road and bridge equipment. The notes are classified as direct borrowings and are secured by the purchased equipment. The original principal amounts totaling \$1,472,533 are payable in monthly installments with interest of 2.55%-3.16%. Final maturity of the notes is February 28, 2024.

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

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	872,543	30,200	902,743
2022	14,466	3,034	17,500
2023	14,849	2,651	17,500
2024	<u>85,191</u>	<u>1,138</u>	<u>86,329</u>
Total	\$ <u>987,049</u>	\$ <u>37,023</u>	\$ <u>1,024,072</u>

IV. OTHER INFORMATION

A. Pension Plan

Plan Description

The County’s nontraditional defined benefit pension plan, Texas County and District Retirement System (TCDRS), provides pensions for all of its full-time employees. The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 738 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report on a calendar year basis. The report is available online at *www.tcdrs.org*.

All full and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.

Benefits Provided

TCDRS provides retirement, disability and survivor benefits for all eligible employees. Benefit terms are established by the TCDRS Act. The benefit terms may be amended as of January 1, each year, but must remain in conformity with the Act.

Members can retire at age 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. By law, employee accounts earn 7% interest. At retirement, death or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	189
Inactive employees entitled to but not yet receiving benefits	233
Active employees	<u>250</u>
	<u><u>672</u></u>

Contributions

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

Employees for the County were required to contribute 7% of their annual gross earnings during the fiscal year. The County's actuarially required employer contribution rates were 8.20% and 8.51% for calendar years 2020 and 2019, respectively, which were less than the County's elected contribution rate of 9.75%. The County's contributions to TCDRS for the year ended September 30, 2020, were \$1,013,530 and were \$245,228 greater than the required contributions.

Net Pension Liability

The County's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

The actuarial assumptions that determined the Total Pension Liability as of December 31, 2019 were based on the results of an actuarial experience study for the period January 1, 2013, through December 31, 2016, except for mortality assumptions. Mortality assumptions were updated for the 2017 valuation to reflect projected improvements.

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

The long-term expected rate of return on TCDRS is determined by adding inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information below are based on April 2020 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017. The target allocation and best estimates of geometric real rates return for each major asset class are summarized in the following table:

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (net) Index	2.50%	5.50%
International Equities - Developed	MSCI World Ex USA (net) Index	7.00%	5.20%
International Equities - Emerging	MSCI Emerging Markets (net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	3.00%	4.50%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

⁽¹⁾ Target asset allocation adopted at the June 2020 TCDRS Board meeting.

⁽²⁾ Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80% per Cliffwater's 2020 capital market assumptions.

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

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

⁽⁵⁾ Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 39,961,414	\$ 36,350,546	\$ 3,610,868
Changes for the year:			
Service cost	1,024,819	-	1,024,819
Interest on total pension liability ⁽¹⁾	3,214,209	-	3,214,209
Effect of economic/demographic gains or losses	499,323	-	499,323
Refund of contributions	(197,061)	(197,061)	-
Benefit payments	(2,464,026)	(2,464,026)	-
Administrative expenses	-	(31,502)	31,502
Member contributions	-	697,581	(697,581)
Net investment income	-	5,970,424	(5,970,424)
Employer contributions	-	1,038,771	(1,038,771)
Other ⁽²⁾	-	(25,902)	25,902
Balance at 12/31/2019	<u>\$ 42,038,678</u>	<u>\$ 41,338,831</u>	<u>\$ 699,847</u>

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

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

Sensitivity Analysis

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

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Total pension liability	\$ 46,782,864	\$ 42,038,678	\$ 38,007,055
Fiduciary net position	<u>41,338,831</u>	<u>41,338,831</u>	<u>41,338,831</u>
Net pension liability/(asset)	<u>\$ 5,444,033</u>	<u>\$ 699,847</u>	<u>\$ (3,331,776)</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2020, the County recognized pension expense of \$832,967. At September 30, 2020, 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	\$ 332,881	\$ 160,584
Changes in actuarial assumptions	60,316	-
Difference between projected and actual investment earnings	-	1,038,960
Contributions subsequent to the measurement date	<u>657,366</u>	<u>-</u>
Total	<u>\$ 1,050,563</u>	<u>\$ 1,199,544</u>

\$657,366 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ended September 30,	Pension Expense Amount
2021	\$(196,599)
2022	(136,836)
2023	140,095
2024	(613,007)

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, 2021, 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, 2020, contributions by the County were \$315,131, 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	59
Inactive employees entitled to but not yet receiving benefits	-
Active employees	<u>231</u>
	<u><u>290</u></u>

Actuarial Methods and Assumptions

Significant methods and assumptions were as follows:

Actuarial Valuation Date	December 31, 2019
Actuarial Cost Method	Individual Entry Age
Discount rate	2.75% as of December 31, 2019
Inflation Rate	2.50%
Salary Increases	0.50% to 5.00%, not including wage inflation of 3.25%
Demographic Assumptions	Based on the experience study covering the four year period ending December 31, 2016 as conducted for the Texas County and District Retirement System (TCDRS).
Mortality	For healthy retirees, the gender-distinct RP-2014 Healthy Annuitant Mortality Tables are used with male rates multiplied by 130% and female rates multiplied by 110%. Those rates are projected on a fully generational basis based on 110% of the ultimate rates of Scale MP-2014.
Health care cost trend rates	Initial rate of 7.0% declining to an ultimate rate of 4.15% after 14 years. The County's explicit subsidies were assumed to increase at the same rate as inflation.
Participation rates	It was assumed that 90% of eligible retirees would choose to receive retiree health care benefits and life insurance coverage through the County.
Notes	The discount rate changed from 3.71% as of December 31, 2018 to 2.75% as of December 31, 2019.

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 2.75% 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, 2019.

Changes in the Total OPEB Liability

The County's total OPEB liability of \$12,043,430 was determined by an actuarial valuation as of December 31, 2019.

	<u>Total OPEB Liability</u>
Balance at 12/31/2018	\$ 10,348,279
Changes for the year:	
Service cost	632,013
Interest	389,799
Difference between expected and actual experience of the total OPEB liability	(491,944)
Changes of assumptions	1,480,414
Benefit payments	(315,131)
Net changes	<u>1,695,151</u>
Balance at 12/31/2019	\$ <u>12,043,430</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.71% to 2.75%.

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 (2.75%) in measuring the total OPEB liability.

	<u>1% Decrease in Discount Rate (1.75%)</u>	<u>Discount Rate (2.75%)</u>	<u>1% Increase in Discount Rate (3.75%)</u>
Total OPEB Liability	\$ 13,878,664	\$ 12,043,430	\$ 10,531,123

Healthcare Cost Trend Rate Sensitivity Analysis

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

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
Total OPEB liability	\$ 10,345,228	\$ 12,043,430	\$ 14,217,321

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

For the year ended September 30, 2020, the County recognized OPEB expense of \$1,138,098. At September 30, 2020, 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	\$ -	\$ 430,419
Changes in actuarial assumptions	1,499,525	414,624
Contributions subsequent to the measurement date	<u>262,625</u>	<u>-</u>
Total	<u>\$ 1,762,150</u>	<u>\$ 845,043</u>

\$262,625 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, 2021. 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
2021	\$ 116,286
2022	116,286
2023	116,286
2024	116,286
2025	69,310
Thereafter	120,028

C. Risk Management

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

D. Contingent Liabilities

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

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

E. New Accounting Standards

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

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

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

**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, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes:				
Property	\$ 10,990,970	\$ 10,990,970	\$ 12,087,235	\$ 1,096,265
Sales	1,737,441	1,737,441	2,198,669	461,228
Mixed beverage	18,000	18,000	19,739	1,739
Fees of office	754,500	754,500	877,928	123,428
Intergovernmental	298,458	298,458	672,143	373,685
Fines and forfeitures	593,700	593,700	566,614	(27,086)
Interest	94,150	94,150	140,038	45,888
Miscellaneous	21,350	69,350	57,550	(11,800)
Insurance recoveries	-	16,411	24,957	8,546
Transfers	<u>1,947,605</u>	<u>1,947,605</u>	<u>1,903,298</u>	<u>(44,307)</u>
Total revenues, as classified by budget	<u>16,456,174</u>	<u>16,520,585</u>	<u>18,548,171</u>	<u>2,027,586</u>
Less: other financing sources budgeted as revenues			<u>(1,928,255)</u>	
Total revenues, as classified per GAAP			<u>16,619,916</u>	
EXPENDITURES				
County auditor	268,742	268,742	266,219	2,523
Information technology	207,631	207,631	200,310	7,321
Veterans service office	97,278	97,278	90,793	6,485
Human resources	77,804	77,804	76,915	889
Maintenance	380,468	380,468	367,008	13,460
Agricultural agent	187,940	187,940	169,343	18,597
Tax assessor-collector	567,802	567,802	562,884	4,918
District clerk	380,885	380,885	340,406	40,479
County clerk	416,915	416,915	391,491	25,424
Elections	399,800	399,800	231,481	168,319
County treasurer	184,046	184,046	179,544	4,502
Sheriff	2,943,172	2,943,172	2,731,645	211,527
Jail	2,434,569	2,434,569	2,420,637	13,932
County judge	213,646	213,646	212,326	1,320
County attorney	387,678	387,678	359,050	28,628
District attorney	503,763	503,763	478,493	25,270
Justice of the peace - Pct. #1	117,635	117,635	120,491	(2,856)
Justice of the peace - Pct. #2	127,265	127,265	124,357	2,908
Justice of the peace - Pct. #3	143,462	143,462	131,156	12,306
Justice of the peace - Pct. #4	128,941	128,941	130,428	(1,487)
Constable - Pct. #1	78,616	78,616	79,121	(505)
Constable - Pct. #2	81,787	81,787	70,456	11,331
Constable - Pct. #3	85,394	85,394	84,972	422
Constable - Pct. #4	79,118	79,118	78,484	634

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
EXPENDITURES (Continued)				
2nd judicial district court	\$ 467,090	\$ 467,090	\$ 331,453	\$ 135,637
Court administrator -				
2nd / 369th district court	67,274	67,274	62,738	4,536
369th judicial district court	204,237	204,237	224,902	(20,665)
County court-at-law	623,349	623,349	572,465	50,884
Transfers to other funds	456,692	456,692	504,692	(48,000)
Other departmental	1,604,786	1,604,786	1,491,413	113,373
County special	401,364	401,364	400,240	1,124
County/state special	23,200	23,200	16,911	6,289
Juvenile probation	324,178	324,178	298,689	25,489
Emergency management	70,295	70,295	67,579	2,716
Rural addressing	24,858	24,858	24,858	-
Records management	47,000	47,000	47,100	(100)
Department of public safety	6,600	6,600	4,407	2,193
Total expenditures - sub-fund 010	<u>14,815,280</u>	<u>14,815,280</u>	<u>13,945,457</u>	<u>869,823</u>
Solid waste - sub-fund 021	151,114	151,114	123,689	27,425
General fund special - sub-fund 025	2,002,441	2,002,441	1,958,134	44,307
Indigent health - sub-fund 045	881,793	881,793	186,030	695,763
Historical commission - sub-fund 050	15,055	15,055	10,825	4,230
Total expenditures, as classified by budget	<u>17,865,683</u>	<u>17,865,683</u>	<u>16,224,135</u>	<u>1,641,548</u>
Less: other financing uses budgeted as expenditures			<u>(2,632,704)</u>	
Total expenditures, as classified per GAAP			<u>13,591,431</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			<u>3,028,485</u>	
OTHER FINANCING SOURCES (USES)				
Transfers out			(729,406)	
Insurance recoveries			24,957	
Total other financing sources (uses)			<u>(704,449)</u>	
NET CHANGE IN FUND BALANCES	(1,409,509)	(1,345,098)	2,324,036	3,669,134
FUND BALANCES, BEGINNING	<u>3,641,138</u>	<u>3,641,138</u>	<u>3,641,138</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,231,629</u>	<u>\$ 2,296,040</u>	<u>\$ 5,965,174</u>	<u>\$ 3,669,134</u>

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CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,637,931	\$ 4,637,931	\$ 4,952,816	\$ 314,885
Fees of office	807,000	807,000	967,507	160,507
Intergovernmental	50,000	50,000	48,754	(1,246)
Interest	29,350	29,350	28,378	(972)
Miscellaneous	-	59,255	110,890	51,635
Total revenues	<u>5,524,281</u>	<u>5,583,536</u>	<u>6,108,345</u>	<u>524,809</u>
EXPENDITURES				
Non-departmental	654,702	654,702	578,436	76,266
Precinct 1	864,044	864,044	839,537	24,507
Precinct 2	1,580,004	1,847,891	2,030,140	(182,249)
Precinct 3	1,368,939	1,368,939	1,593,584	(224,645)
Precinct 4	1,175,366	1,303,960	1,027,003	276,957
License and weight division	81,226	81,226	56,522	24,704
Total expenditures	<u>5,724,281</u>	<u>6,120,762</u>	<u>6,125,222</u>	<u>(4,460)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(200,000)</u>	<u>(537,226)</u>	<u>(16,877)</u>	<u>520,349</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	396,481	396,481	-
Insurance recoveries	-	5,136	5,136	-
Total other financing sources(uses)	<u>-</u>	<u>401,617</u>	<u>401,617</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(200,000)</u>	<u>(135,609)</u>	<u>384,740</u>	<u>520,349</u>
FUND BALANCES, BEGINNING	<u>2,317,422</u>	<u>2,317,422</u>	<u>2,317,422</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 2,117,422</u>	<u>\$ 2,181,813</u>	<u>\$ 2,702,162</u>	<u>\$ 520,349</u>

CHEROKEE COUNTY, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

SEPTEMBER 30, 2020

Measurement Date December 31	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 1,030,570	\$ 1,087,069
Interest total pension liability	2,578,735	2,715,879
Effect of plan changes	-	(172,587)
Effect of assumption changes or inputs	-	402,325
Effect of economic/demographic (gains) or losses	(92,042)	(326,643)
Benefit payments/refunds of contributions	<u>(1,892,238)</u>	<u>(2,039,552)</u>
Net change in total pension liability	1,625,025	1,666,491
Total pension liability - beginning	<u>32,258,676</u>	<u>33,883,701</u>
Total pension liability - ending (a)	\$ <u>33,883,701</u>	\$ <u>35,550,192</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 943,523	\$ 1,017,936
Member contributions	614,434	659,026
Investment income net of investment expenses	2,102,346	369,520
Benefit payments refunds of contributions	(1,892,238)	(2,039,552)
Administrative expenses	(24,033)	(23,062)
Other	<u>17,288</u>	<u>(25,403)</u>
Net change in plan fiduciary net position	1,761,320	(41,535)
Plan fiduciary net position - beginning	<u>30,346,480</u>	<u>32,107,800</u>
Plan fiduciary net position - ending (b)	\$ <u>32,107,800</u>	\$ <u>32,066,265</u>
Net pension liability - ending (a) - (b)	\$ <u>1,775,901</u>	\$ <u>3,483,927</u>
Fiduciary net position as a percentage of total pension liability	94.76%	90.20%
Pensionable covered payroll	\$ 8,777,633	\$ 9,414,652
Net pension liability as a percentage of covered payroll	20.23%	37.01%

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

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 1,187,975	\$ 1,069,643	\$ 1,067,128	\$ 1,024,819
2,844,319	2,996,799	3,100,722	3,214,209
-	-	-	-
-	241,262	-	-
(445,927)	(547,134)	(71,400)	499,323
<u>(2,075,536)</u>	<u>(2,311,283)</u>	<u>(2,645,346)</u>	<u>(2,661,087)</u>
1,510,831	1,449,287	1,451,104	2,077,264
<u>35,550,192</u>	<u>37,061,023</u>	<u>38,510,310</u>	<u>39,961,414</u>
<u>\$ 37,061,023</u>	<u>\$ 38,510,310</u>	<u>\$ 39,961,414</u>	<u>\$ 42,038,678</u>
\$ 1,013,384	\$ 1,000,335	\$ 1,017,651	\$ 1,038,771
655,757	646,390	658,824	697,581
2,371,928	4,931,858	(720,508)	5,970,424
(2,075,536)	(2,311,282)	(2,645,346)	(2,661,087)
(25,760)	(25,334)	(29,197)	(31,502)
<u>(144,899)</u>	<u>(8,943)</u>	<u>(25,040)</u>	<u>(25,902)</u>
1,794,874	4,233,024	(1,743,616)	4,988,285
<u>32,066,265</u>	<u>33,861,138</u>	<u>38,094,162</u>	<u>36,350,546</u>
<u>\$ 33,861,138</u>	<u>\$ 38,094,162</u>	<u>\$ 36,350,546</u>	<u>\$ 41,338,831</u>
<u>\$ 3,199,885</u>	<u>\$ 416,148</u>	<u>\$ 3,610,868</u>	<u>\$ 699,847</u>
91.37%	98.92%	90.96%	98.34%
\$ 9,367,951	\$ 9,234,147	\$ 9,411,766	\$ 9,618,088
34.16%	4.51%	38.37%	7.28%

CHEROKEE COUNTY, TEXAS

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2020

<u>Fiscal Year Ended September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 773,819	\$ 800,849	\$ (27,030)	\$ 8,429,398	9.5%
2015	899,826	1,009,463	(109,637)	9,363,430	10.8%
2016	909,455	1,015,379	(135,101)	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%

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

CHEROKEE COUNTY, TEXAS

NOTES TO SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS

SEPTEMBER 30, 2020

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	6.7 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provision were reflected in the Schedule. 2019: No changes in plan provision were reflected in the Schedule.

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

CHEROKEE COUNTY, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY

SEPTEMBER 30, 2020

Measurement Date December 31,	<u>2017</u>	<u>2018</u>	<u>2019</u>
A. Total OPEB liability			
Service Cost	\$ 346,107	\$ 393,049	\$ 632,013
Interest (on the Total OPEB Liability)	252,524	243,927	389,799
Changes of benefit terms	-	3,267,379	-
Difference between expected and actual experience of the total OPEB liability	-	(13,070)	(491,944)
Changes of assumptions	400,354	(575,334)	1,480,414
Benefit payments, including refunds of employee contributions	<u>(280,926)</u>	<u>(281,057)</u>	<u>(315,131)</u>
Net change in Total OPEB liability	718,059	3,034,894	1,695,151
Total OPEB liability - beginning	<u>6,595,326</u>	<u>7,313,385</u>	<u>10,348,279</u>
Total OPEB liability - ending (a)	<u>7,313,385</u>	<u>10,348,279</u>	<u>12,043,430</u>
B. Covered-employee payroll	\$ 9,234,147	\$ 9,411,766	\$ 9,628,266
C. Total OPEB liability as a percentage of covered-employee payroll	79.20%	109.95%	125.08%

Notes:

- This schedule is required to have 10 years of information, but the information prior to 2017 is not available.
- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
- Changes in assumptions reflect annual change in the discount rate.
- Changes of benefit terms reflect increases to the County's pre-65 and post-65 subsidies and adjusting the health care trend rate assumption for subsidies to increase with inflation.

**COMBINING
FUND STATEMENTS**

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	Special Revenue		
	County Health Unit	Airport	Grant
ASSETS			
Cash and cash equivalents	\$ 103,813	\$ 175,522	\$ 666,753
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Due from other governments	32,217	186,301	-
Total assets	136,030	361,823	666,753
LIABILITIES			
Accounts payable	17,879	2,871	7,387
Accrued liabilities	7,193	1,349	1,205
Total liabilities	25,072	4,220	8,592
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted for:			
Justice system	-	-	658,161
Public safety	-	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	-	-
Debt service	-	-	-
Committed for:			
Health and human services	110,958	-	-
Infrastructure and environmental services	-	357,603	-
Assigned for:			
Capital projects	-	-	-
Total fund balances	110,958	357,603	658,161
Total liabilities, deferred inflows and fund balances	\$ 136,030	\$ 361,823	\$ 666,753

Special Revenue

Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account
\$ 32,257	\$ 273,146	\$ 82,722	\$ 23,893	\$ 16,194
-	-	-	-	-
-	-	-	-	-
<u>32,257</u>	<u>273,146</u>	<u>82,722</u>	<u>23,893</u>	<u>16,194</u>
1,375	4,107	-	-	-
-	7,333	-	-	-
<u>1,375</u>	<u>11,440</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	261,706	-	23,893	-
30,882	-	-	-	16,194
-	-	82,722	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>30,882</u>	<u>261,706</u>	<u>82,722</u>	<u>23,893</u>	<u>16,194</u>
<u>\$ 32,257</u>	<u>\$ 273,146</u>	<u>\$ 82,722</u>	<u>\$ 23,893</u>	<u>\$ 16,194</u>

CHEROKEE COUNTY, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2020

	Special Revenue		
	Constables LEF Special	Local Provider Participation	State Hospital/ MHMR
ASSETS			
Cash and cash equivalents	\$ 14,481	\$ 645,479	\$ 41,422
Investments	-	-	-
Receivables (net of allowance for uncollectibles)			
Taxes	-	-	-
Due from other governments	-	-	-
Total assets	14,481	645,479	41,422
LIABILITIES			
Accounts payable	-	-	521
Accrued liabilities	-	-	-
Total liabilities	-	-	521
DEFERRED INFLOWS OF RESOURCES			
Unavailable - property taxes	-	-	-
Total deferred inflows of resources	-	-	-
FUND BALANCES			
Restricted for:			
Justice system	-	-	-
Public safety	14,481	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	645,479	-
Debt service	-	-	-
Committed for:			
Health and human services	-	-	40,901
Infrastructure and environmental services	-	-	-
Assigned for:			
Capital projects	-	-	-
Total fund balances	14,481	645,479	40,901
Total liabilities, deferred inflows and fund balances	\$ 14,481	\$ 645,479	\$ 41,422

Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 2,824	\$ 54,912	\$ 2,133,418
63,000	-	63,000
4,658	-	4,658
-	-	218,518
<u>70,482</u>	<u>54,912</u>	<u>2,419,594</u>
-	-	34,140
-	-	17,080
-	-	<u>51,220</u>
3,251	-	3,251
<u>3,251</u>	<u>-</u>	<u>3,251</u>
-	-	943,760
-	-	61,557
-	-	82,722
-	-	645,479
67,231	-	67,231
-	-	151,859
-	-	357,603
-	54,912	54,912
<u>67,231</u>	<u>54,912</u>	<u>2,365,123</u>
\$ <u>70,482</u>	\$ <u>54,912</u>	\$ <u>2,419,594</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Special Revenue		
	County Health Unit	Airport	Grant
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	104,765	408,920	186,155
Intergovernmental	500,447	-	207,842
Fines and forfeitures	-	-	37,529
Interest	2,187	2,248	-
Total revenues	<u>607,399</u>	<u>411,168</u>	<u>431,526</u>
EXPENDITURES			
Current:			
General government	-	-	50,144
Justice system	-	-	188,018
Public safety	-	-	18,619
Corrections and rehabilitation	-	-	-
Health and human services	979,323	-	-
Infrastructure and environmental services	-	480,403	-
Capital outlay	-	-	-
Total expenditures	<u>979,323</u>	<u>480,403</u>	<u>256,781</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(371,924)</u>	<u>(69,235)</u>	<u>174,745</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	311,528	100,000	-
Transfers out	-	-	-
Insurance recoveries	-	10,245	-
Total other financing sources and uses	<u>311,528</u>	<u>110,245</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(60,396)</u>	<u>41,010</u>	<u>174,745</u>
FUND BALANCES, BEGINNING	<u>171,354</u>	<u>316,593</u>	<u>483,416</u>
FUND BALANCES, ENDING	<u>\$ 110,958</u>	<u>\$ 357,603</u>	<u>\$ 658,161</u>

Special Revenue

Law Enforcement Education	Juvenile Probation	Jail Commissary	District Attorney LEF Special Account	Sheriff LEF Account
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	113,607	-	-
8,500	508,819	-	-	-
-	2,370	-	8,203	12,665
253	2,414	-	-	-
<u>8,753</u>	<u>513,603</u>	<u>113,607</u>	<u>8,203</u>	<u>12,665</u>
-	-	-	-	-
-	759,042	-	4,269	-
4,835	-	-	-	26,268
-	-	85,031	-	-
-	-	-	-	-
-	-	-	-	-
<u>4,835</u>	<u>759,042</u>	<u>85,031</u>	<u>4,269</u>	<u>26,268</u>
<u>3,918</u>	<u>(245,439)</u>	<u>28,576</u>	<u>3,934</u>	<u>(13,603)</u>
-	269,878	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>269,878</u>	<u>-</u>	<u>-</u>	<u>-</u>
3,918	24,439	28,576	3,934	(13,603)
<u>26,964</u>	<u>237,267</u>	<u>54,146</u>	<u>19,959</u>	<u>29,797</u>
<u>\$ 30,882</u>	<u>\$ 261,706</u>	<u>\$ 82,722</u>	<u>\$ 23,893</u>	<u>\$ 16,194</u>

CHEROKEE COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Special Revenue		
	Constables LEF Special	Local Provider Participation	State Hospital/ MHMR
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Fees of office	-	-	29,518
Intergovernmental	-	142,841	-
Fines and forfeitures	168	-	-
Interest	-	4,687	-
Total revenues	<u>168</u>	<u>147,528</u>	<u>29,518</u>
EXPENDITURES			
Current:			
General government	-	-	-
Justice system	-	-	-
Public safety	2,400	-	-
Corrections and rehabilitation	-	-	-
Health and human services	-	-	17,421
Infrastructure and environmental services	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>2,400</u>	<u>-</u>	<u>17,421</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,232)</u>	<u>147,528</u>	<u>12,097</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	(60,000)	-
Insurance recoveries	-	-	-
Total other financing sources and uses	<u>-</u>	<u>(60,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(2,232)</u>	<u>87,528</u>	<u>12,097</u>
FUND BALANCES, BEGINNING	<u>16,713</u>	<u>557,951</u>	<u>28,804</u>
FUND BALANCES, ENDING	<u>\$ 14,481</u>	<u>\$ 645,479</u>	<u>\$ 40,901</u>

Debt Service	Capital Projects	Total Nonmajor Governmental
\$ 382	\$ -	\$ 382
-	-	842,965
-	-	1,368,449
-	-	60,935
<u>1,126</u>	<u>75</u>	<u>12,990</u>
<u>1,508</u>	<u>75</u>	<u>2,285,721</u>
-	-	50,144
-	-	951,329
-	-	52,122
-	-	85,031
-	-	996,744
-	-	480,403
-	<u>86,400</u>	<u>86,400</u>
-	<u>86,400</u>	<u>2,702,173</u>
<u>1,508</u>	<u>(86,325)</u>	<u>(416,452)</u>
-	108,000	789,406
-	-	(60,000)
-	-	<u>10,245</u>
-	<u>108,000</u>	<u>739,651</u>
1,508	21,675	323,199
<u>65,723</u>	<u>33,237</u>	<u>2,041,924</u>
\$ <u>67,231</u>	\$ <u>54,912</u>	\$ <u>2,365,123</u>

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Cherokee County, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise Cherokee County, Texas' basic financial statements, and have issued our report thereon dated July 8, 2021.

Internal Control Over Financial Reporting

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

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

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

OFFICE LOCATIONS

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
July 8, 2021