



Honorable County Judge and
Members of the Commissioners' Court
Hill County, Texas

We have audited the financial statements of Hill County, Texas (the "County") as of and for the year ended September 30, 2022, and have issued our report thereon dated August 18, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 20, 2023, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

As a part of the engagement, we assisted in preparing the financial statements, schedule of expenditures of federal awards, and related notes of the County in conformity with U.S. generally accepted accounting principles and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards*.

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

Significant Risks Identified

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

Significant Risk Identified	Reasoning for Special Audit Consideration
1. Management override of controls	There is a presumption in all audits that a significant risk of fraud exists associated with management override of controls.
2. Lease accounting	New accounting standard GASB 87, <i>Leases</i> , presents new financial reporting and note disclosures.

Based on the testwork performed in these areas, no material misstatements, significant deficiencies or material weaknesses were found.

Qualitative Aspects of the County’s Significant Accounting Practices

Significant Accounting Policies

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements are:

Management’s estimate of the useful lives of capital assets is based on the expected lifespan of the asset in accordance with standard guidelines. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

Management’s estimate of the allowance for uncollectible accounts receivable is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole and in relation to the applicable opinion units.

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

Management's estimate of the annual OPEB expense and net OPEB liability is based on economic and demographic assumptions related to future claims/premiums paid on behalf of retirees. We evaluated the key factors and assumptions used to develop the annual OPEB cost and net OPEB obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the County's financial statements relate to the net pension asset and net OPEB liability. The disclosures in the financial statements are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

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

Disagreements with Management

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

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated August 18, 2023.

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Significant Forthcoming Accounting Standards

The Governmental Accounting Standards Board (GASB) issued the following statements which become effective in future fiscal years:

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

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

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

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

Restrictions on Use

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

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

Waco, Texas
August 18, 2023