

Honorable County Judge  
And Commissioners' Court  
Navarro County, Texas

We have audited the financial statements of Navarro County, Texas (the "County") as of and for the year ended September 30, 2022 and have issued our report thereon dated June 29, 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 May 3, 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

We have provided our findings regarding significant control deficiencies over financial reporting and material weaknesses, and material noncompliance, and other matters noted during our audit in a separate letter to you dated June 29, 2023.

### **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.

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#### **OFFICE LOCATIONS**

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

As a part of the engagement we assisted in preparing the financial statements, schedule of expenditures of federal awards, and related notes to the financial statements of the Navarro County, Texas 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 non-audit services do not constitute an audit under *Government Auditing Standards* and such services were not conducted in accordance with *Government Auditing Standards*.

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

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

**Significant Risks Identified**

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

<u>Significant Risk Identified</u>	<u>Reasoning for Special Audit Consideration</u>
Management override of controls	Inherent fraud risk
Debt issuances	Financial reporting requirements for proceeds from debt issuance are relatively complex.
Leases	New accounting standard (GASB 87, <i>Leases</i> ) requires new financial reporting and note disclosures.

**Qualitative Aspects of the Entity’s Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note I to the financial statements. As described in the notes to the financial statements, during the year, the County changed its method of accounting for leases by adopting Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. The adoption of this standard did not result in a restatement of beginning fund balance or net position, but assets and liabilities were recognized, and more extensive note disclosures were required.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

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

- Management's estimate of the allowance for uncollectible property taxes receivable is based on a historical collection rate of outstanding property taxes. We evaluated the key factors and assumptions used to develop the allowance in determining 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 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 basic financial statements taken as a whole and in relation to the applicable opinion units.
- Management's estimate of the allowance for uncollectible court fines and fees receivable is based on a historical collection rate of outstanding court fines and fees. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.
- Management's estimates of the net pension asset, OPEB liabilities, pension expense, and OPEB expense are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuary makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension liability, OPEB liabilities, pension expense, and OPEB expense and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are 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 liability. The disclosures in the financial statements are neutral, consistent, and clear.

### **Significant Difficulties Encountered during the Audit**

Although we ultimately received full cooperation of management and believe that we were given direct and unrestricted access to the County's books and records, as we disclosed in the schedule of findings and questioned costs, we encountered difficulties in performing and completing the audit process. Principally, these difficulties related to reconciling receivables (due from) and payables (due to) between funds. This issue, as well as adjustments being recorded to the general ledger cash accounts subsequent to the performance of reconciling bank accounts to the general ledger, added time to 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. Material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management, please see attached schedule.

## **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.

## **Circumstances that Affect the Form and Content of the Auditor's Report**

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. No such circumstances exist.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter dated June 29, 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.

## **Other Information Included in the Annual Comprehensive Financial Report**

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

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

### **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) issued the following statements which become effective for fiscal years 2023 and 2024.

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

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

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

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

### **Restriction on Use**

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

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

Waco, Texas  
June 29, 2023