



Communication with Those Charged with Governance

To Judge and Commissioners of
Hamilton County

We have audited the financial statements of the Hamilton County as of and for the year ended September 30, 2025, and have issued our report thereon dated March 9, 2026. 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 September 25, 2025, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity 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 Hamilton 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 and others in our firm, as appropriate, have complied with all relevant ethical requirements regarding independence.

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 Hamilton County is included in Note A to the financial statements. There have been no changes in significant accounting policies or their application in 2025 except for the following:

As of October 1, 2024, the County implemented GASB Statement 101 related to compensated absences. Previously, only absences to be paid on termination were included in the liability recorded on the financial statements. Now, the liability also includes time that is more likely than not to be taken in the future. This means that a portion of sick leave is now included. The liability as of October 1, 2024 increased \$38,490. Rather than restate beginning net position, that change was included in current expenses.

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

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements are:

1. Useful lives of depreciable assets
2. Allowance for uncollectible property tax
3. Compensated absences more likely than not to be taken in the future
4. Mortality rates, investment returns, discount rates, health care cost trends and other expected conditions related to
 - a. Pension plan
 - b. Retiree Insurance

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Hamilton County's financial statements related to the pension plan, retiree insurance plan, and tax abatements.

Significant Difficulties Encountered during the Audit

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

Representations Requested from Management

We have requested certain written representations from management in a separate letter dated March 9, 2026.

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 Hamilton County's financial statements or the auditor's report. No such disagreements arose during the course 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 except for the implementation of GASB 101 as stated previously in this letter. The impact on the financial statements as a whole by not restated beginning balances, in the opinion of management, is not material.

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. We assisted management with reconciling to the prior audit balances and recording routine accruals such as property tax receivables, accrued wages, accrued compensated absences, depreciation and debt balances. In addition, we assisted with cleaning up balances in clearing funds that are not being routinely reconciled.

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

During our audit, we noted the following items for improvement in the County:

Clearing Account Reconciliations

We noted the County maintains several clearing funds that hold various cash receipts in liability accounts. Some of the activity should be reported as revenue rather than a liability and over time differences may occur between the collections and remittances to third parties. The County is not routinely reviewing these liability accounts, making it more difficult to identify and correct potential issues. The County should routinely (at least quarterly) reconcile these clearing liabilities to ensure that activity is accurately received into and paid from these accounts. Adjustments to the chart of accounts on County office deposit reports may be necessary to ensure the Treasurer is receiving amounts to the proper locations.

Custodial Bank Balances

The Tax Assessor, District Clerk and County Clerk have bank accounts they maintain and reconcile individually: 8 total bank accounts that we identified. These accounts are not recorded in Tyler, however they are required to be recorded in the annual report. Thus, annually as part of the report preparation, these accounts are obtained and summarized. This means that activity flowing through these accounts may not be seen by other offices except for one time a year. It also increases the risk that other bank accounts could be in use that are unreported. The County should consider requiring all offices to turn in their bank statements regularly and record those balances in the Tyler accounting system. This will ensure that any unusual activity would be caught more timely, increase transparency, and streamline the annual report preparation.

TCDRS Contribution Rate

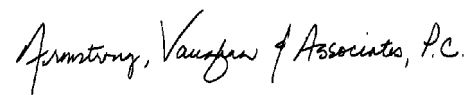
We noted the County's pension plan was over 100% funded as of the 2024 valuation and the actuarial contribution rate was 5.01% of employee wages. However, the County had elected to fund the plan at 9.79%. For the 2024-2025 year, the additional amount paid into TCDRS above the required rate was \$130 thousand. The County may wish to discuss reducing the contribution rate to the required percentage with TCDRS.

Bank Reconciliations

We noted in 2025 certain errors in bank reconciliations that were not detected and corrected timely. In addition, the Logics investment accounts were not reconciled, which would have helped identify some of the errors. The County has settled into a pattern of not reconciling cash to the penny and plugging differences each month to a clearing account. This practice can obscure large offsetting errors, which occurred in 2025. For the 2025-2026 year, the County has hired a finance director who will be taking over the reconciliation function. She will be able to dedicate more time to the reconciliations and research issues that may be encountered. We expect this will eliminate the issue going forward. However, the County should monitor the situation and ensure progress is occurring as expected.

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

Respectfully,



Armstrong, Vaughan & Associates, PC
March 9, 2026