



Honorable Mayor and
Members of the City Council
City of Schertz, Texas

We have audited the financial statements of the City of Schertz, Texas (the "City") as of and for the year ended September 30, 2020 and have issued our report thereon dated March 19, 2021. 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 July 24, 2020, 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 City 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, related notes to the financial statements, and the schedule of expenditures of federal awards of the City in conformity with U.S. generally accepted accounting principles and Uniform Guidance. 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, related notes to the financial statements, and the schedule of expenditures of federal awards, and any other nonaudit services we provided. Management acknowledged in the management representation letter our assistance with the preparation of the financial statements, related notes to the financial statements, and the schedule of expenditures of federal 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.

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 City is included in Note I to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

The most sensitive accounting estimates affecting the financial statements are:

Management's estimate of the 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 court fines and delinquent property taxes receivable are based on historical collections. We evaluated the key factors and assumptions used to develop the allowance for uncollectible court fines 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 EMS receivable is based on historical collections. We evaluated the key factors and assumptions used to develop the allowance for EMS revenues 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 and total OPEB liabilities and related expenses are based on actuarial assumptions which are determined by the demographics of the plan and future projections that the actuarial makes based on historical information of the plan and the investment market. We evaluated the key factors and assumptions used to develop the net pension and total OPEB liabilities and pension and OPEB expenses and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to the net pension and OPEB liabilities. 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 City'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 March 19, 2021.

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 City, 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 the City's auditors.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following statements which become effective for fiscal years 2021 and 2022.

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 City 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 City in fiscal year 2022.

Restriction on Use

This report is intended solely for the information and use of the City Council and management of the City 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
March 19, 2021