

SHAREHOLDERS:
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Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

Communication with Those Charged with Governance

To the Audit Committee
City of Seguin, Texas, Texas

We have audited the basic financial statements of the City of Seguin, Texas, as of and for the year ended September 30, 2014, and have issued our report thereon dated February 13, 2015. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards (and *Government Auditing Standards*)

As communicated in our engagement letter dated October 1, 2014, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion 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 City of Seguin, Texas 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, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the City'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 City of Seguin, Texas is included in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2014.

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, with the following exception:

During the year, the City issued Certificates of Obligation, series 2013, in the amount of \$2,500,000 to fund improvements to State Highway IH 10. The Certificates are partially funded by pledged revenue from the Seguin Economic Development Corporation (up to \$1,250,000). The City paid Texas Department of Transportation \$2,209,258 for the improvements, which will be owned by the State of Texas upon completion. The transaction is reported as a *Special Item* on the Statement of Activities, as well as the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds. More information is contained in notes I and O to the financial statements.

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:

- Useful lives and depreciation calculations on capital assets
- Allowance for uncollectible receivables for
 - Utility Billings
 - EMS Receivables
 - Property taxes

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. For the year ended September 30, 2014, the most sensitive disclosures related to commitments and contingencies (see Note M).

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that 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. The attached schedule summarizes uncorrected audit differences of the financial statements. The differences were all related to recording accounts payable and contract retentions in the current fiscal year. Management has determined that the effects in the current or prior periods are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

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. The following material misstatements were identified and brought to the attention of, and corrected by, management:

- Revenues accrued on TxDOT Grant for the Hike and Bike Trail were overstated.
- LCRA contingent liability was reversed in accordance with generally accepted accounting principles for contingencies due to the settlement of litigation subsequent to the end of the fiscal period.

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 of Seguin, Texas' 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 a separate letter dated February 13, 2015.

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.

Public Funds Investment Act

As a part of our audit, we review the City's compliance with the Public Funds Investment Act. Our procedures determined that the City is in compliance, in all material respects, with the provisions of the Act.

Other Significant Findings or Issues

In the normal course of our professional association with City of Seguin, Texas, 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 City of Seguin, Texas' auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information (statistical section) in documents containing City of Seguin, Texas's audited financial statements does not extend beyond the financial 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 information and considering whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which 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.

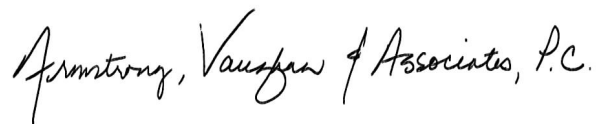
New Pronouncements – GASB Statement No. 68

The Governmental Accounting Standards Board has approved Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with implementation in periods beginning after June 15, 2014. The statement established accounting and financial reporting for employers with defined benefit pensions. For the first time, a net pension liability (or asset); defined as the net of assets held in trust for pension benefits net of a total pension liability; will be recognized on the statement of net position. For the most recent valuation at December 31, 2013, the unfunded actuarially accrued liability was \$11.5 million. Any annual changes will be reflected on the statement of activities. There are many provisions of the statement that will affect the City of Seguin, Texas. Required note disclosures will include ten years of data as supplementary information. We recommend the City become familiar with the new statement provisions and the potential effect implementation will have on the government-wide statement of net position.

Trend Analysis

We have prepared the attached “Trend Analysis” as a financial planning tool for council and staff. Sound financial management dictates that a minimum fund balance be maintained that is sufficient to ensure operations will continue uninterrupted and emergencies that arise from time to time will be met. A rule of thumb for a minimum fund balance for the general fund is three to six months average operating expenditures (exclusive of capital outlay and debt service expenditures). The attachment details the trends over the last five years. This is presented for additional analysis and as a planning tool. We make no recommendation regarding the analysis of this information.

This report is intended solely for the information and use of the Audit Committee, City Council, and management of City of Seguin, Texas and is not intended to be and should not be used by anyone other than these specified parties.



Armstrong, Vaughan & Associates, P.C.
February 13, 2015

CITY OF SEGUIN

TREND ANALYSIS	9/30/2010	9/30/2011	9/30/2012	9/30/2013	9/30/2014
GENERAL GOVERNMENT					
FUND BALANCE - GENERAL FUND	\$ 6,279,226	\$ 6,506,089	\$ 17,543,582	\$ 17,783,611	\$ 16,828,920
AVERAGE MONTHLY OPERATING EXPENDITURES ⁽¹⁾	1,168,456	1,264,799	1,309,383	1,358,528	1,469,007
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES	+5.0%	+8.2%	+3.5%	+3.8%	+8.1%
# MONTHS AVERAGE EXPENDITURES IN FUND BALANCE	5.4	5.1	13.4	13.1	11.5
GENERAL BONDED DEBT (NET OF DEBT SERVICE RESERVES)	30,243,922	39,725,590	41,289,480	39,242,331	59,229,332
RATIO OF GENERAL BONDED DEBT TO FUND EQUITY	4.8/1	6.1/1	2.4/1	2.2/1	3.5/1
UTILITY SYSTEM					
WORKING CAPITAL ⁽²⁾	23,128,117	39,517,120	39,585,521	37,533,632	36,714,474
Less: Restricted for Debt Retirement	(1,884,617)	(2,210,790)	(2,236,280)	(2,365,494)	(2,377,273)
Restricted for Capital Projects	(6,364,482)	(15,471,154)	(14,525,905)	(15,463,761)	(12,914,507)
AVAILABLE WORKING CAPITAL	14,879,018	21,835,176	22,823,336	19,704,377	21,422,694
AVERAGE MONTHLY OPERATING EXPENSES	2,976,307	3,063,655	3,216,421	3,201,813	3,017,075
# MONTHS AVERAGE EXPENSES IN AVAILABLE WORKING CAPITAL	5.0	7.1	7.1	6.2	7.1
REVENUE BONDS OUTSTANDING	15,570,000	22,600,000	21,640,663	20,822,573	19,774,859
MISCELLANEOUS					
FUND BALANCE - EMERGENCY FUND	2,432,977	2,363,258	2,208,762	2,163,385	2,165,441

⁽¹⁾ Exclusive of Debt Service Expenditures and Capital Outlay expenditures

⁽²⁾ Current Assets less Current Liabilities.

City of Seguin
Schedule of Unadjusted Audit Differences
September 30, 2014

2010 Certificates of Obligation

Understated Liability 36,549

Understated AP - Timing Difference **808-A**

2014 GO Bonds

Understated Liability 48,378

Understated AP - Timing Difference **808-A**

Governmental Nonmajor Funds

Understated Liability 56,463

Understated AP - Timing Difference **808-A**

Utility Fund/ Business-type Activities

Understated Liability 318,356

Understated AP - Timing Difference **808-A**

Government-wide/ Governmental Activities

Understated Liability 141,390

Understated AP - Timing Difference **808-A**