

Nancy L. Vaughan, CPA
Deborah F. Fraser, CPA
Phil S. Vaughan, CPA



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

Communication with Those Charged with Governance

To the Audit Committee
City of Seguin, Texas,

We have audited the basic financial statements of the City of Seguin, Texas, as of and for the year ended September 30, 2017, and have issued our report thereon dated February 15, 2018. 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 July 6, 2017, 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 2017.

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:

- Useful lives and depreciation calculations on capital assets
- Valuation of ending inventories
- Allowance for uncollectible receivables for
 - Utility Billings
 - EMS Receivables
 - Property taxes
- Net pension liability assumptions for mortality rates and investment returns

Management's estimate of useful lives of capital assets is based on industry standards and engineering estimates. Inventories are valued at cost (which approximates market value) using a moving average cost method. A physical count of all inventories is taken at the end of each fiscal year. Allowance for uncollectible receivables is based on past history with the different types of receivables. The assumptions utilized in the calculation for the net pension liability are based on actuarial guidance and are provided by Texas Municipal Retirement System and are not subject to city management determination. One of the most significant assumptions used in the NPL is the discount rate – currently set at 6.75%.

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, 2017, the most sensitive disclosures related to the net pension liability (see Note J).

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

For purposes of this communication, 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 on the relevant classes of transactions, account balances or disclosures and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected audit difference of the financial statements. The difference noted in the fund statements relates to expenditures by TxDOT on behalf of the City and were not recorded as current expenditures and offsetting grant revenues. The difference for Government Activities and Business Activities related to recording unbilled contract retention on uncompleted contracts in the current fiscal year. Management policy is to record contract retentions at the time the contract is complete and retentions are submitted for payment. Management has determined that the effect in the current period is 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. We proposed no significant adjustments to correct misstatements noted in the audit.

We did assist management in recording components of new debt, , and the associated deferred charges, as well as changes to the net pension liability and other post-employment benefit liability (retiree insurance).

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 15, 2018.

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 Matters, Findings or Issues

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

During audit procedures, we became aware of other opportunities for improvement with the following suggestion:

Grant Monitoring and Accounting

The City has been the recipient of many grants over the past several years, with some being significant. In the prior audit we noted the City had added a Grants Coordinator to oversee the grant compliance and accounting, and training was provided to ensure a complete understanding of compliance requirements. There was improvement in the process of monitoring and coordinating grants.

During the current audit, however, a significant grant (FEMA Disaster Recovery) was omitted from the monitoring process overseen by the Grants Coordinator. In addition, the Schedule of Federal Expenditures – required by *Uniform Guidance* to be prepared by management, had not been compared to the general ledger of the city, allowing the omission of the FEMA grant to go undetected. This is an important step in the monitoring process and ensures that all grants are accounted for when determining Federal Single Audit Requirements.

We recommend management designate a person with knowledge of grant management (and specifically single audit requirements) to supervise the preparation of the Schedule of Federal Expenditures by the Grants Coordinator and compare the expenditures and reimbursements to the underlying accounting records to ensure completeness.

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 Accounting Standards

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). The statement changes the focus of accounting for OPEBs from whether they are responsibly funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statement for any actuarially underfunded portion of benefits earned to date.

This Statement is effective for the City's financial period beginning October 1, 2017.

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.

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February 15, 2018

CITY OF SEGUIN

TREND ANALYSIS	9/30/2013	9/30/2014	9/30/2015	9/30/2016	9/30/2017
GENERAL GOVERNMENT					
FUND BALANCE - GENERAL FUND	\$ 17,783,611	\$ 16,828,920	\$ 17,990,279	\$ 15,158,011	\$ 13,173,454
AVERAGE MONTHLY OPERATING EXPENDITURES ⁽¹⁾	1,358,528	1,469,007	1,543,686	1,674,630	1,869,642
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES	+3.8%	+8.1%	+5.1%	+8.5%	+11.6
# MONTHS AVERAGE EXPENDITURES IN FUND BALANCE	13.1	11.5	11.7	9.1	7.0
GENERAL BONDED DEBT (NET OF DEBT SERVICE RESERVES)	39,242,331	59,229,332	57,090,074	67,451,659	74,680,288
RATIO OF GENERAL BONDED DEBT TO FUND EQUITY	2.2/1	3.5/1	3.2/1	4.4/1	5.7/1
UTILITY SYSTEM					
WORKING CAPITAL ⁽²⁾	37,533,632	36,714,474	51,261,033	42,806,590	43,957,533
Less: Restricted for Debt Retirement	(2,365,494)	(1,300,153)	(807,839)	911,583	1,252,584
Restricted for Capital Projects	(15,463,761)	(13,710,440)	(28,814,631)	(17,894,344)	(18,246,439)
A AVAILABLE WORKING CAPITAL	19,704,377	21,703,881	21,638,563	25,823,829	26,963,678
AVERAGE MONTHLY OPERATING EXPENSES	3,201,813	3,017,075	3,405,232	3,386,693	3,363,887
# MONTHS AVERAGE EXPENSES IN A AVAILABLE WORKING CAPITAL	6.2	7.2	6.4	7.6	8.0
REVENUE BONDS OUTSTANDING	20,822,573	19,774,859	40,102,740	42,755,970	49,699,711
MISCELLANEOUS					
FUND BALANCE - EMERGENCY FUND	2,163,385	2,165,441	2,167,774	2,018,494	1,536,102

⁽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, 2017**

Fund Statements

General Fund Cap Projects 37,681 *Understated Revenue/ Expenditure*

Government-wide Statements

Government-wide/ Governmental Activities
Unrecorded Payables 383,145 *The City does not record retentions on Long-term
Projects until final*

Business-type Activities 796,750 *The City does not record retentions on Long-term
Projects until final*