

SHAREHOLDERS:
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, 2015, and have issued our report thereon dated February 15, 2016. 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 August 24, 2015, 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 2015 with the exception of the following:

During the year, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. The new pronouncement required the City to recognize a net pension liability and related deferred inflows and outflows of resources be recognized on the government-wide and proprietary fund statements. The change required a prior period adjustment to restate the beginning net position as if the provisions of GASB 68 had been implemented in the prior 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, with the following exception:

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
- 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. 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.

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, 2015, the most sensitive disclosures related to GASB 68 and 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 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. 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 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, 2016.

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 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 suggestions:

Capital Asset Tracking

The City maintains a detailed listing of all capital assets that meet the city's capitalization threshold, along with depreciation calculations for each asset. Annually the depreciation calculations are entered into the general ledger in the relevant funds. Over the years differences have occurred between the general ledger accounting system and the capital asset tracking software. With the change in accounting software an opportunity is presented to reconcile the two systems and make the tracking of assets more streamlined and accurate. We recommend that the general ledger accounts be adjusted to reflect the detailed asset tracking records. In the future when differences occur, the reason and resolution can be more easily determined and corrected on a timely basis.

Grant Monitoring and Accounting

The City has been the recipient of many grants over the past several years, with some being significant. Each grant has compliance requirements that must be met in order to maintain the grant, and be eligible for future grants. We did not have any indication that there were any compliance violations with regards to the grants we audited. However, we did note there was not a clear designation of suitably trained staff to monitor the compliance and accounting of grants at the city-wide level. Each individual grant was administered by the department that applied for and was awarded the grant. There are overall requirements, however, that are collectively applied across all grants.

The lack of suitably trained staff to oversee the grant compliance and accounting resulted in difficulty determining a complete list of grants received, the relevant compliance requirements to be applied to the grants, and the complete accounting for all grants. The City would be better served by designating an overall grants compliance manager to coordinate grants between departments, ensure grants are all accounted for in the accounting software, and reimbursement arrangements are applied properly.

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.

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.

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February 15, 2016

CITY OF SEGUIN

<u>TREND ANALYSIS</u>	<u>9/30/2011</u>	<u>9/30/2012</u>	<u>9/30/2013</u>	<u>9/30/2014</u>	<u>9/30/2015</u>
GENERAL GOVERNMENT					
FUND BALANCE - GENERAL FUND	\$ 6,506,089	\$ 17,543,582	\$ 17,783,611	\$ 16,828,920	\$ 17,990,279
AVERAGE MONTHLY OPERATING EXPENDITURES ⁽¹⁾	1,264,799	1,309,383	1,358,528	1,469,007	1,543,686
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES	+8.2%	+3.5%	+3.8%	+8.1%	+5.1%
# MONTHS AVERAGE EXPENDITURES IN FUND BALANCE	5.1	13.4	13.1	11.5	11.7
GENERAL BONDED DEBT (NET OF DEBT SERVICE RESERVES)	39,725,590	41,289,480	39,242,331	59,229,332	57,090,074
RATIO OF GENERAL BONDED DEBT TO FUND EQUITY	6.1/1	2.4/1	2.2/1	3.5/1	3.2/1
UTILITY SYSTEM					
WORKING CAPITAL ⁽²⁾	39,517,120	39,585,521	37,533,632	36,714,474	51,261,033
Less: Restricted for Debt Retirement	(2,210,790)	(2,236,280)	(2,365,494)	(1,300,153)	(807,839)
Restricted for Capital Projects	<u>(15,471,154)</u>	<u>(14,525,905)</u>	<u>(15,463,761)</u>	<u>(13,710,440)</u>	<u>(28,814,631)</u>
AVAILABLE WORKING CAPITAL	21,835,176	22,823,336	19,704,377	21,703,881	21,638,563
AVERAGE MONTHLY OPERATING EXPENSES	3,063,655	3,216,421	3,201,813	3,017,075	3,405,232
# MONTHS AVERAGE EXPENSES IN AVAILABLE WORKING CAPITAL	7.1	7.1	6.2	7.2	6.4
REVENUE BONDS OUTSTANDING	22,600,000	21,640,663	20,822,573	19,774,859	40,102,740
MISCELLANEOUS					
FUND BALANCE - EMERGENCY FUND	2,363,258	2,208,762	2,163,385	2,165,441	2,167,774

⁽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, 2015

2010 Certificates of Obligation

Understated Liability	<u>\$ 145,041</u>	<i>Understated AP - Timing Difference</i>
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2014 GO Bonds

Understated Liability	<u>\$ 287,508</u>	<i>Understated AP - Timing Difference</i>
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Governmental Nonmajor Funds

Understated Liability	<u>\$ 98,285</u>	<i>Understated AP - Timing Difference</i>
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Utility Fund/ Business-type Activities

Understated Liability	<u>\$ 247,068</u>	<i>Understated AP - Timing Difference</i>
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Government-wide/ Governmental Activities

Understated Liability	<u>\$ 530,834</u>	<i>Understated AP - Timing Difference</i>
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