



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, 2024, and have issued our report thereon dated March 14, 2025. 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 September 16, 2024, 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. 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
- Net OPEB liability assumptions for investment returns and cost trends

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%. Additionally, the assumptions used Other Post Employment Benefits (OPEB) Liabilities (supplemental death benefit and retiree health insurance) are provide by external sources and are not subject to city management determination. One of the most significant assumption used in both OPEB liabilities are the discount rates of 1.84% for the supplemental death benefit and 4.02% for the retiree health benefit

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, 2024, the most sensitive disclosures related to the net pension liability.

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 page summarizes uncorrected audit differences of the financial statements:

- The difference noted in the Government Wide Fund and the General Fund related to recording unbilled contract retention on uncompleted contracts in the current fiscal year was understated. 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 of the unrecorded liabilities in the current period are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.
- The difference noted in the Government Wide Activities and the Business Activities (Utility Fund) related to recording of right of use leased assets and the corresponding lease liabilities in the current fiscal year was understated for both. Management has determined that the effect of the unrecorded right of use leased asset and related lease liabilities in the current period 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. We assisted management in recording the 2024 Certificate of Obligation bond, bond discounts and premiums and grant revenues.

We assisted management in recording changes to the net pension liability and other post-employment benefit liabilities.

We assisted management in recording permit, impact, roadway credits, miscellaneous receivables and deposits to the utility fund.

We assisted management in correcting the receivable and revenues to the grant revenues, .

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 March 14, 2025.

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 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 our audit procedures, we became aware of the following opportunities to strengthen the City's operations with the following suggestions:

1. EMS and permits were not reconciled from the subsidiary ledgers or "provided by client" spreadsheets to the general ledger at year end resulting in multiple material adjustments, both by the auditor and provided by the client.

Recommendation: Reconcile, at least, permits from the subsidiary ledger and spreadsheets to the general ledger. Currently, the EMS provider (Change Healthcare) is not providing information as they are no longer the provider; however, they are still collecting old claims.

2. Currently, there is no verification of the third-party calculations (prepared by Engineer) on the Rudeloff Road project by finance/grants manager. Additionally, the receivable calculations were incorrect for the Rudeloff Road project and the GLO grant resulting in incorrect receivable and revenue information to be reported in the financial statements and the Schedule of Expenditure for Federal Assistance (SEFA). The grant reimbursement request from GLO had an invoice that was missed when pulling the project details from InCode. As a result of the above items, the SEFA was incorrect for both the Rudeloff Road project and the GLO project, as well as a material adjusting entry.

Recommendation: Reconcile, at least, quarterly, the spreadsheet kept by the Grants Administrator to the InCode project details in the general ledger. Specifically review the expenses that the City is not expected to be reimbursed on the Grant Administrator's spreadsheet. There should be verification of the third-party calculations on each project to ensure that reimbursement submissions are accurate information is sent to the grantor for reimbursements, as well as tracking the project.

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

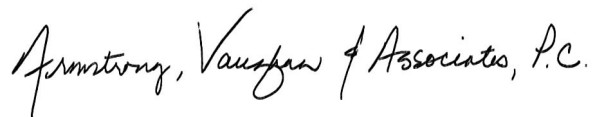
information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

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 the City of Seguin, Texas and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

March 14, 2025

CITY OF SEGUIN

| TREND ANALYSIS | 9/30/2020 | 9/30/2021 | 9/30/2022 | 9/30/2023 | 9/30/2024 |
|---|---------------|---------------|---------------|---------------|---------------|
| GENERAL GOVERNMENT | | | | | |
| FUND BALANCE - GENERAL FUND | \$ 15,395,653 | \$ 16,811,831 | \$ 18,566,609 | \$ 22,955,792 | \$ 27,008,738 |
| AVERAGE MONTHLY OPERATING EXPENDITURES ⁽¹⁾ | 1,999,913 | 2,205,814 | 2,303,868 | 2,494,725 | 2,686,875 |
| GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES | +6.9% | +7.6% | 4.4% | 8.7% | 8.3% |
| # MONTHS AVERAGE EXPENDITURES IN FUND BALANCE | 7.7 | 7.6 | 9.3 | 9.2 | 10.1 |
| GENERAL BONDED DEBT (NET OF DEBT SERVICE RESERVES) | 79,384,379 | 86,904,103 | 90,234,781 | 113,090,972 | 134,724,043 |
| RATIO OF GENERAL BONDED DEBT TO FUND EQUITY | 5.2/1 | 5.2/1 | 4.9/1 | 4.9/1 | 4.9/1 |
| UTILITY SYSTEM | | | | | |
| WORKING CAPITAL ⁽²⁾ | 50,721,167 | 62,169,093 | 84,549,466 | 338,191,918 | 401,290,443 |
| Less: Restricted for Debt Retirement | (778,758) | (1,614,477) | (4,295,648) | (3,050,460) | (6,781,269) |
| Restricted for Capital Projects | (24,135,348) | (30,149,814) | (31,964,854) | (288,213,833) | (351,747,747) |
| A AVAILABLE WORKING CAPITAL | 25,807,061 | 30,404,802 | 48,288,964 | 46,927,625 | 42,761,427 |
| AVERAGE MONTHLY OPERATING EXPENSES | 3,686,263 | 3,804,601 | 4,103,330 | 4,486,987 | 5,069,736 |
| # MONTHS AVERAGE EXPENSES IN AVAILABLE WORKING CAPITAL | 7.0 | 8.0 | 11.8 | 10.5 | 8.4 |
| REVENUE BONDS OUTSTANDING | 56,300,000 | 57,820,000 | 69,360,000 | 298,095,000 | 381,420,000 |
| MISCELLANEOUS | | | | | |
| FUND BALANCE - EMERGENCY FUND | 2,008,348 | 3,029,936 | 2,500,330 | 2,615,559 | 2,757,780 |

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

⁽²⁾ Current Assets less Current Liabilities.

City of Seguin
Schedule of Unadjusted Audit Differences
For Year Ended September 30, 2024

Governmental-type Activities

| | | |
|---------------------------------------|----------------------------|--|
| Unrecorded Payables | \$ 338,054 | <i>The City does not record retentions on Long-term Projects until final</i> |
| Unrecorded Right of Use Leased Assets | 572,638 | <i>Right of Use Leased Assets</i> |
| Unrecorded Lease Liabilities | <u>289,895</u> | <i>Lease Liabilities</i> |
| Total Unadjusted Mistatement | <u><u>\$ 1,200,587</u></u> | |

Non-Major Combined Capital Projects Fund

| | | |
|---------------------|------------|--|
| Unrecorded Payables | \$ 338,059 | <i>The City does not record retentions on Long-term Projects until final</i> |
|---------------------|------------|--|

Business-type Activities

| | | |
|---------------------------------------|--------------------------|-----------------------------------|
| Unrecorded Right of Use Leased Assets | \$ 355,904 | <i>Right of Use Leased Assets</i> |
| Unrecorded Lease Liabilities | <u>187,058</u> | <i>Lease Liabilities</i> |
| Total Unadjusted Mistatement | <u><u>\$ 542,962</u></u> | |

Utility Fund

| | | |
|---------------------------------------|--------------------------|-----------------------------------|
| Unrecorded Right of Use Leased Assets | \$ 355,904 | <i>Right of Use Leased Assets</i> |
| Unrecorded Lease Liabilities | <u>187,058</u> | <i>Lease Liabilities</i> |
| Total Unadjusted Mistatement | <u><u>\$ 542,962</u></u> | |

The city has continued to show the operating leases as rental expense as the net effect, nor the gross effect are material to the financial statements. The net effect of the Governmental-Type Activities Unrecorded Right of Use Leased Asset is \$572,638 and Lease Liabilities are \$289,895 and a net effect of \$282,743. The net effect of the Business -Type Activities Unrecorded Right of Use Leased Asset is \$355,904 and Lease Liabilities are \$187,058 and a net effect of \$168,846. Management will continue to look at these leases annually and determine whether or not the effect will be material.