

SHAREHOLDERS:

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

February 27, 2017

City Council and City Management  
City of Helotes, Texas

We have audited the financial statements of the City of Helotes, Texas for the year ended September 30, 2016 and have issued our report thereon dated February 27, 2017. Professional standards require that we advise you of the following matters related to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated October 31, 2014, our responsibility, as described by professional standards, is 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 aspects and 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 misstatements. An audit of financial statements includes consideration of internal controls 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 controls over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of Helotes solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal controls.

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.

We have provided our comments regarding a material weakness in internal control noted during our audit in a separate letter to you dated February 27, 2017.

**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 Ethical 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 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 are described in Note A to the financial statements. There have been no initial selections of accounting policies, nor have there been changes in significant accounting policies or their application during 2016. 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 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 estimates affecting the financial statements were:

- Useful lives of depreciable assets;
- Allowance for uncollectible accounts receivable for Emergency Medical Services; and
- Net Pension Liability and the assumptions for mortality rates and investment returns.

The useful lives of the depreciable assets are based on past history, engineering estimates, and industry standards. The allowance for uncollectibles is based on collection history through San Antonio EMS. The estimates related to the Net Pension Liability are based on the actuarial study performed by Texas Municipal Retirement System with no input from the City's management. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *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 financial statement disclosures include revenue recognition and employees' retirement systems and commitments and contingencies.

## **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 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. The following uncorrected financial statement misstatement's effect in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit:

Expenditures were understated by \$38,344 in the General Fund due to accrued payroll not recorded as of September 30, 2016. Management's decision to not accrue payroll so as to follow the budget cycle is reasonable and does not result in a material misstatement of the financial statements.

Revenues were understated by \$41,027 in the General Fund due to correction of duplicate revenues posted in the prior year.

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. Management made us aware at the beginning of audit procedures that transfers were not fully reconciled. After further discussion, management was able to identify and provide as support to auditors an additional investment that needed to be recorded. This resulted in a significant adjustment to correct the investment balance of \$651,710 and transfers between Capital Projects Fund and General Fund.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Representations Requested from Management**

We have requested certain representations from management that are included in the management representation letter dated February 27, 2017.

### **Management Consultations with Other Independent 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**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Compliance with Public Funds Investment Act**

The Public Funds Investment Act, (the "Act") requires that we include, as part of our audit, procedures to determine if the City of Helotes had complied with the provisions of the Act. We found the City had complied, in all material respects, with the provisions of the Act.

### **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 trend over the last six years. This is presented for additional analysis and as a planning tool. We make no recommendation regarding the analysis of this information.

## **Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Council and management of the City of Helotes 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.

February 27, 2017

<u>TREND ANALYSIS</u>	<u>9/30/12</u>	<u>9/30/13</u>	<u>9/30/14</u>	<u>9/30/15</u>	<u>9/30/16</u>
<b>GENERAL GOVERNMENT</b>					
FUND BALANCE - GENERAL FUND (1)	\$ 2,532,452	\$ 2,924,244	\$ 3,786,300	\$ 1,660,768	\$ 2,101,643
AVERAGE MONTHLY OPERATING EXPENDITURES (2)	312,346	333,667	360,059	457,589	465,269
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES (3)		6.83%	7.91%	27.09%	1.68%
MONTHS OF AVERAGE MONTHLY EXPENDITURES IN FUND BALANCE	8.1	8.8	10.5	3.6	4.5
GENERAL BONDED DEBT	8,975,000	8,450,000	7,905,000	11,650,000	10,965,000
RATIO OF GENERAL BONDED DEBT TO FUND BALANCE	3.5 / 1	2.9 / 1	2.1 / 1	7.0 / 1	5.2 / 1

(1) Includes unassigned fund balance only

(2) Exclusive of Capital Outlay and Debt Service Expenditure

(3) Expenditures in 2015 increased significantly due to the transfer of EMS and Dispatch Services from Proprietary Funds to the General Fund.