



March 13, 2018

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, 2017 and have issued our report thereon dated March 13, 2018. 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 controls of the 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.

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 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 or (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 the City of Helotes' EMS collection history. 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.

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 transaction summarizes an uncorrected financial misstatement whose effects 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: Due to the nonaccrual of a capital lease in the prior year, current year capital assets (net of accumulated depreciation) and leases payable are understated by \$63,000.

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. Correcting entries were made to correct credit card receivables at year end.

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 March 13, 2018.

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. During the current audit, we became aware of opportunities to enhance the existing internal control structure and audit trail with the following suggestions:

1. The credit card receivables balance was incorrectly reconciled, which resulted in a negative receivable balance and understated revenues.

Suggestion: Management should review credit card receivables balances during the monthly bank reconciliation to ensure revenues and related receivables are accurate.

2. The City's prior Purchasing Policy requires certain procedures for expenditures over \$500. During Purchasing Policy testing, we noted areas of improvement regarding the documentation of purchase orders and competitive quotes for expenditures that fall in the threshold of \$500 to \$50,000, as required in the Purchasing Policy. The City did provide documentation for purchases over \$50,000.

Suggestion: Purchase orders, competitive quotes and other necessary documents should be stored in order to ensure procurement activities are administered in accordance with the provisions of the City's Purchasing Policy. In addition, the City should consider modifying the existing Purchasing Policy to raise the threshold requiring competitive quotes to \$3,000 in accordance with the Texas Local Government Code.

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 five months average of operating expenditures (exclusive of capital outlay and debt service expenditures). The attachment details the trend 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.

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 the information 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.

March 13, 2018

TREND ANALYSIS	9/30/13	9/30/14	9/30/15	9/30/16	9/30/17
GENERAL GOVERNMENT					
FUND BALANCE - GENERAL FUND (1)	\$ 2,924,244	\$ 3,786,300	\$ 1,660,768	\$ 2,101,643	\$ 1,996,778
AVERAGE MONTHLY OPERATING EXPENDITURES (2)	333,667	360,059	457,589	465,269	523,466
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES (3)		7.91%	27.09%	1.68%	12.51%
MONTHS OF AVERAGE MONTHLY EXPENDITURES IN FUND BALANCE	8.8	10.5	3.6	4.5	3.8
GENERAL BONDED DEBT	8,450,000	7,905,000	11,650,000	10,965,000	10,250,000
RATIO OF GENERAL BONDED DEBT TO FUND BALANCE	2.9 / 1	2.1 / 1	7.0 / 1	5.2 / 1	5.13 / 1

(1) Includes unassigned fund balance only

(2) Exclusive of Capital Outlay and Debt Service expenditures.

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

Expenditures in 2017 increased significantly due to the repayment of sales tax in accordance with Chapter 380 Economic Development Agreements.