



January 31, 2014

City Council and City Management,
City of Helotes

We have audited the financial statements of the City of Helotes, for the year ended September 30, 2013, and have issued our report thereon dated January 31, 2014. 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 July 12, 2013, 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, 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 Helotes 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 Ethical Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms 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. As described in Note A to the financial statements, City of Helotes changed accounting policies related to items previously reported as assets and liabilities by adopting Governmental Accounting Standards Board Statement No. 63 and 65 in 2013. The implementation did not have a material effect on 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 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 estimate affecting the financial statements was:

- Useful lives of depreciable assets
- Allowance for uncollectible accounts receivable in Emergency Services Fund

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. 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 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:

The adoption of Governmental Accounting Standards Board Statement No. 65 during the current year required unamortized bond issue costs to be removed from the government-wide financial statements. These unamortized costs relate to prior periods but were recorded in the current year in the amount of \$69,024.

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. Additionally, none of the differences detected as a result of audit procedures were material to the financial statements either individually or in the aggregate.

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 January 31, 2014.

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

In the normal course of our professional association with City of Helotes, 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 City of Helotes's auditors.

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 trends 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.

Updates and Upcoming Pronouncements

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, **Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27**, with implementation in periods beginning after June 15, 2014. The statement established accounting and financial reporting for employers with defined benefit pensions. For the first time, a net pension liability (or asset); defined as the net of assets held in trust for pension benefits net of a total pension liability; will be recognized on the statement of net position. Any annual changes will flow to the statement of activities. There are many provisions of the statement that will affect the City of Helotes. Required note disclosures will include ten years of data as supplementary information. We recommend the City become familiar with the new statement provisions and the potential effect implementation will have on the government-wide statements of net position.

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.

January 31, 2014

TREND ANALYSIS	9/30/09	9/30/10	9/30/11	9/30/12	9/30/13
GENERAL GOVERNMENT					
FUND BALANCE - GENERAL FUND (1)	\$ 2,133,166	\$ 2,094,987	\$ 2,188,309	\$ 2,532,452	\$ 2,924,244
AVERAGE MONTHLY OPERATING EXPENDITURES (2)	309,584	328,201	306,984	312,346	333,667
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES		6.01%	-6.46%	1.75%	6.83%
MONTHS OF AVERAGE MONTHLY EXPENDITURES IN FUND BALANCE	6.9	6.4	7.1	8.1	8.8
GENERAL BONDED DEBT	10,405,000	9,950,000	9,475,000	8,975,000	8,450,000
RATIO OF GENERAL BONDED DEBT TO FUND BALANCE	4.9 / 1	4.7 / 1	4.3 / 1	3.5 / 1	2.9 / 1

(1) Includes unassigned fund balance only

(2) Exclusive of Capital Outlay and Debt Service Expenditure