

SHAREHOLDERS:

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

## **Communication with Those Charged with Governance**

January 16, 2014

Honorable Mayor and Members of the City Council  
Kirby, Texas

We have audited the financial statements of the City of Kirby, Texas as of and for the year ended September 30, 2013, and have issued our report thereon dated January 16, 2014. Professional standards require that we advise you of the following matters relating to our audit.

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

As communicated in our engagement letter dated July 30, 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 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 the City of Kirby, 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, 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 of Kirby, Texas are described in Note A to the financial statements. As described in Note A to the financial statements, the City of Kirby, Texas 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 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 estimates affecting the financial statements were:

- Estimated useful lives and depreciation calculations on capital assets
- Estimate of uncollectible property taxes

Management's estimate of the useful lives of the depreciable assets is based on past history, engineering estimates, and industry standards. The allowance for uncollectible accounts has been estimated for ad valorem property taxes, water and sewer receivable accounts, and EMS receivable accounts and is based on collections history of the City. We evaluated the key factors and assumptions used to develop these two 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. The most sensitive disclosures affecting the City of Kirby, Texas's financial statements relate to the property tax calendar 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 on 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 \$64,506.

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. There were no material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

## **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 Kirby, Texas' financial statements or the auditor's report. 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 16, 2014.

## **Management 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 Kirby, 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 risk of material misstatement. None of the matters discussed resulted in a condition to our retention as City of Kirby, Texas' auditors.

## **Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing City of Kirby, Texas' audited financial statements does not extend beyond the financial information identified in the report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards we have, with respect to the supplementary information accompanying the financial statements, 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.

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.

### Compliance with Public Funds Investment Act

The Public Funds Investment Act requires that we include, as part of our audit, procedures to determine if the City of Kirby, Texas complied with the provisions of the Act. We found as a result of our procedures that with respect to the City of Kirby, Texas, that the City had complied in all material respects with the provisions of the Act.

### Trend Analysis

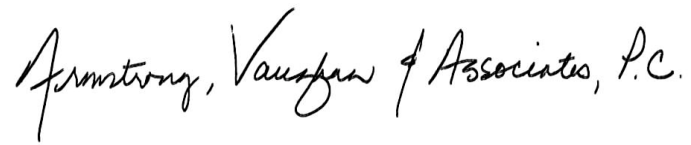
We have prepared the attached "Trend Analysis" as a financial planning tool for council and staff. Sound financial management dictates that a minimum fund balance be maintained that is sufficient to ensure operations will continue uninterrupted and emergencies that arise from time to time will be met. 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 five 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 Government 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 Kirby, Texas. 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 information and use of the City Council and management. This restriction is not intended to limit distribution of this report, which is a matter of public record.

It has been our pleasure to provide these services to the City of Kirby, Texas. We urge you to contact us if we can be of further assistance.

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

Armstrong, Vaughan & Associates, P.C.

January 16, 2014

CITY OF KIRBY

TREND ANALYSIS

	09-30-09	09-30-10	09-30-11	09-30-12	09-30-13
FUND BALANCE - GENERAL FUND (Unassigned)	\$ 1,595,275	\$ 1,300,058	\$ 1,523,657	\$ 1,838,398	\$ 2,608,411
AVERAGE MONTHLY OPERATING EXPENDITURES (1)	\$ 228,642	\$ 230,350	\$ 232,538	\$ 239,972	\$ 251,822
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES	10.9%	0.7%	0.9%	3.2%	4.9%
# MONTHS AVERAGE EXPENDITURES IN RESERVE	6.98	5.64	6.55	7.66	9.00
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES (2)	\$ 4,528,572	\$ 2,821,780	\$ 1,794,997	\$ 2,146,650	\$ 2,630,042
GENERAL BONDED DEBT	\$ 3,685,000	\$ 3,325,000	\$ 2,925,000	\$ 2,560,000	\$ 2,210,000
RATIO OF FUND EQUITY TO BONDED DEBT	1.2/1	0.8/1	0.6/1	0.8/1	1.2/1
NET POSITION (3)	\$ 3,152,251	\$ 3,112,961	\$ 3,455,412	\$ 3,763,526	\$ 4,119,440

(1) Exclusive of Capital and Debt Service Expenditures

(2) Includes General, Debt Service and Capital Projects Funds (exclusive of encumbrances)

(3) Includes Waterworks & Sewer