Armstrong, Vaughan & Associates, P. C. Certified Public Accountants
Deborah F. Fraser Phil S. Vaughan Nancy L. Vaughan Kimberly J. Roach

Communication with Those Charged with Governance

February 7, 2020

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, 2019, and have issued our report thereon dated February 7, 2020. 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 August 30, 2019, 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 has complied with all relevant ethical requirements regarding independence.

941 West Byrd Blvd., Suite 101 • Universal City, Texas 78148
Phone: 210-658-6229 • Fax: 210-659-7611 • Email: info@avacpa.com • www.avacpa.com

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. On October 1, 2018, the City adopted GASB Statement No. 88, *Certain disclosures Related to Debt, including Direct Borrowings and Placements.* The City did not have any direct borrowings or replacements.

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 and other receivables
- Pension and other post employment benefit related factors such as investment return and mortality rates

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. The estimates related to the Net Pension Liability and the OPEB 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 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 disclosure affecting the City of Kirby, Texas's financial statements relate to the 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. Due to the over accrual of franchise revenues in the prior year, franchise revenues are understated by $7,346 in 2019. This is treated as an unadjusted 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.

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. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by management: Capitalization of property and equipment expensed in the Proprietary Fund and end of year accruals.

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 February 7, 2020.

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.

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.

Modification of the Auditor's Report

We have made the following modification to our auditor's report:

Because the Kirby Senior Center Corporation is not included in the City's financial statements as required by generally accepted accounting principles, we have issued an adverse opinion on the reporting entity (the primary government plus the Kirby Senior Center). However, we have issued an unmodified opinion on the primary government without the Kirby Senior Center.

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.

Armstrong, Vaughan & Associates, P.C.

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February 7, 2020

CITY OF KIRBY

TREND ANALYSIS

	09-30-15	09-30-16	09-30-17	09-30-18	09-30-19
FUND BALANCE - GENERAL FUND (Unassigned)	$ 2,649,935	$ 2,562,131	$ 2,557,474	$ 2,478,739	$ 1,940,979
AVERAGE MONTHLY OPERATING EXPENDITURES (1)	$ 256,807	$ 264,143	$ 282,867	$ 309,860	$ 352,391
GROWTH RATE PER YEAR - AVERAGE MONTHLY OPERATING EXPENDITURES	-4.7%	2.9%	7.1%	9.5%	13.7%
# MONTHS AVERAGE EXPENDITURES IN RESERVE	8.73	9.70	9.04	8.00	5.51
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES (2)	$ 2,894,301	$ 2,821,699	$ 2,842,484	$ 9,671,579	$ 9,098,738
GENERAL BONDED DEBT	$ 1,470,000	$ 1,085,000	$ 680,000	$ 7,060,000	$ 6,715,000
RATIO OF FUND EQUITY TO BONDED DEBT	2.0/1	2.6/1	4.2/1	1.37/1	1.35/1
NET POSITION (3) -Unrestricted	$ 3,160,295	$ 2,846,714	$ 2,434,054	$ 2,209,687	$ 2,323,205

(1) Exclusive of Capital and Debt Service Expenditures

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

(3) Includes Waterworks & Sewer Only