



Communication with Those Charged with Governance

To the Mayor and City Council
City of La Vernia, Texas

We have audited the basic financial statements of the City of La Vernia, as of and for the year ended September 30, 2025, and have issued our report thereon dated January 26, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As communicated in our engagement letter dated July 3, 2025, our responsibility, as described by professional standards, is to plan and perform our audit 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 La Vernia 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 in accordance 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, 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 of La Vernia is included in Note A to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2025 except for:

In 2025, the City implemented GASB 101 related to compensated absences as required. Previously, the liability for employee accumulated leave only included vacation balances. Now an estimated amount of sick leave is included for the portion that is expected to be taken as time off in the future. This increased the liability but it only impacts the government-wide financial statements. The impact on the prior year was not material to the financial statements (\$52,473), so it was adjusted in 2025 rather than restating the prior year.

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 accounting estimate affecting the financial statements is:

- Useful lives of capital assets
- Allowance for uncollectible tax and water revenue receivables
- Pension and other post-employment benefit related estimates such as investment rate of return and mortality rates

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 disclosures affecting City of La Vernia's financial statements relate to the Texas Municipal Retirement System and tax abatements.

Significant Difficulties Encountered during the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit. However, turnover in management led to a gap in bank reconciliations mid year. The gap created a significant unreconciled balance. We were able to assist management in finding and correcting the transactions causing the balance.

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 is determined by management to be immaterial to the financial statements taken as a whole:

As previously mentioned, the City implemented GASB 101 related to compensated absences. This added \$52 thousand to the liability as of September 30, 2024. Rather than restate the prior year financials, the increase was recorded in 2025 government-wide expense, overstating them by the same amount.

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. We assisted management with recording routine accruals such as the following:

1. Depreciation
2. Tax Accruals
3. Accounts Payable
4. Conversion of water revenues from cash to accrual basis

In addition, as mentioned in the difficulty section, we assisted management in identifying and correcting the transactions causing bank reconciliation differences during staff turnover.

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 La Vernia's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated January 26, 2026.

Management's 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 Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City of La Vernia's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

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.

Other Significant Findings or Issues

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

During our audit we noted the following matter to bring to your attention:

Pooled Cash Setup and Reconciliations

The City maintains a software that performs pooled cash where 1 bank account is used as the primary checking account for multiple funds. This provides for efficiencies in accounting when transactions span multiple funds. It also allows the City to minimize idle bank deposits and invest more. However, the City maintained several other bank accounts in fiscal year 2025. As noted earlier in this letter, there were several errors in the cash accounts that were corrected as part of the audit. Most of the errors related to transactions between the funds that confused the concept of pooled cash with these separately maintained bank accounts. After year end, most of these extra bank accounts have been closed into pooled cash, which is expected to simplify the bank reconciliation process and help reduce these transfer errors. The City should pay particular attention to bank reconciliations and consider closing any other bank accounts that do not serve a distinct purpose to simplify accounting and banking practices.

This report is intended solely for the information and use of the City Council, and management of the City of La Vernia and is not intended to be and should not be used by anyone other than these specified parties.



Armstrong, Vaughan & Associates, P.C.

January 26, 2026