

March 25, 2026

To the Honorable Mayor and
Members of the City Council
City of San Marcos, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Marcos, Texas (the City) for the year ended September 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our engagement letter dated September 30, 2025. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in note 1 to the financial statements. The City adopted statement of Governmental Accounting Standards No. 101, *Compensated Absences*, in fiscal year 2025. This statement provides guidance and consistency regarding the measurement of the compensated absences payable reported in the City's financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 significantly from those expected. The most sensitive estimates affecting the financial statements include management's estimate of the fair value of investments, the net pension liability, deferred inflows and outflows related to the Texas Municipal Retirement System (TMRS), the other postemployment benefit (OPEB) liabilities and deferred outflows related to the Texas Municipal Retirement System – supplemental death benefit fund (TMRS SDBF) and the retiree health plan, accumulated depreciation, claims payable, depreciation expense and the related estimated useful lives of capital assets, and the allowances for doubtful accounts. We evaluated the key factors and assumptions used to develop these estimates in determining they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements is the disclosure of the restatement of beginning balances disclosed in Note 5 of the financial statements related to the implementation of GASB 101, *Compensated Absences*.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 2026.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit 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.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of contributions, schedule of changes in other postemployment benefits (OPEB) liability and related ratios, and the notes to the required supplementary information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompany the financial statements but are not RSI. With respect to the other supplementary information, 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 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 other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and the statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 complied with the provisions of the Act. We found, as a result of our tests, that the City complied, in all material respects, with the provisions of the Act.

Restrictions on Use

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

ABIP, PC

San Antonio, Texas
March 25, 2026