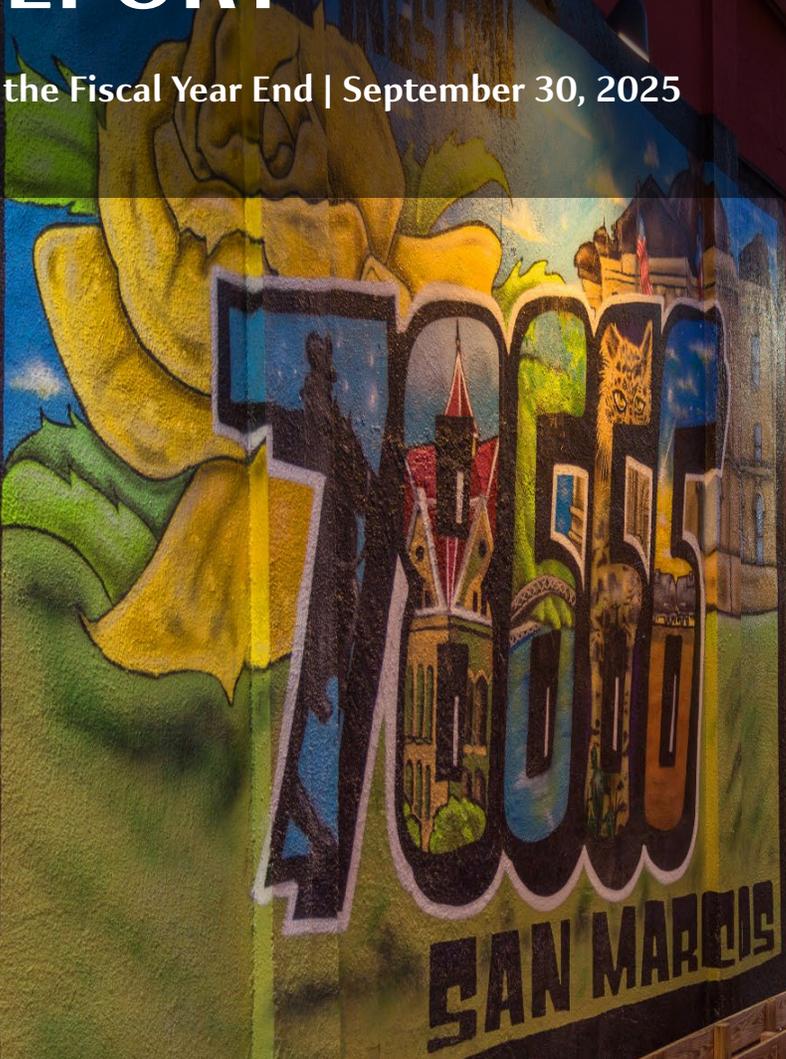


CITY OF SAN MARCOS | TEXAS

SINGLE AUDIT REPORT

For the Fiscal Year End | September 30, 2025



PREPARED BY

FINANCE DEPARTMENT



CITY OF SAN MARCOS, TEXAS

SINGLE AUDIT REPORT

For the year ended September 30, 2025

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of San Marcos, Texas' basic financial statements, and have issued our report thereon dated March 25, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of San Marcos, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of San Marcos, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of San Marcos, Texas' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of San Marcos, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ABIP, PC

San Antonio, Texas

March 25, 2026

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the City of San Marcos, Texas' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of San Marcos, Texas' major federal program for the year ended September 30, 2025. The City of San Marcos, Texas' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of San Marcos, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of San Marcos, Texas and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of San Marcos, Texas' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City of San Marcos, Texas' federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of San Marcos, Texas' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of San Marcos, Texas' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of San Marcos, Texas' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of San Marcos, Texas' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of San Marcos, Texas' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ABIP, PC

San Antonio, Texas

March 25, 2026

CITY OF SAN MARCOS, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2025

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL ASSISTANCE LISTING NUMBER	GRANTOR'S PASS-THROUGH NUMBER	FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<u>U.S. Department of Agriculture</u>				
Passed through the Texas Health and Human Services Commission:				
Women, Infants and Children (WIC Project)	10.557	HHS000806200001	\$ 2,429,266	\$ -
Total Passed through the Texas Health and Human Services Commission			<u>2,429,266</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>2,429,266</u>	<u>-</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant MIT Grant Program	14.218	B-18-MP-48-0002	1,347,210	-
Community Development Block Grant Entitlement Program	14.218	B-19-MC-48-0513	75,767	-
Community Development Block Grant Entitlement Program	14.218	B-20-MC-48-0513	140,931	-
Community Development Block Grant Entitlement Program	14.218	B-20-MW-48-0513	63,977	63,977
Community Development Block Grant Entitlement Program	14.218	B-21-MC-48-0513	255,257	-
Community Development Block Grant Entitlement Program	14.218	B-22-MC-48-0513	72,986	-
Community Development Block Grant Entitlement Program	14.218	B-23-MC-48-0513	337,499	-
Community Development Block Grant Entitlement Program	14.218	B-24-MC-48-0513	<u>534,554</u>	<u>172,024</u>
Total Federal Assistance Listing Number 14.218 (CDBG Cluster)			<u>2,828,181</u>	<u>236,001</u>
Total U.S. Department of Housing and Urban Development			<u>2,828,181</u>	<u>236,001</u>
<u>U.S. Department of Interior</u>				
Direct Programs:				
City of San Marcos Recycled Water Feasibility & Master Plan	15.504	R24AP00179-00	143,369	-
Total Federal Assistance Listing Number 15.904			<u>143,369</u>	<u>-</u>
Total U.S. Department of Interior			<u>143,369</u>	<u>-</u>
<u>U.S. Department of Justice</u>				
Direct Programs:				
Bulletproof Vest Partnership Grant	16.607	2023-BU-BX-23037265	5,994	-
Bulletproof Vest Partnership Grant	16.607	2024-BU-BX-23037265	15,798	-
Total Federal Assistance Listing Number 16.607			<u>21,792</u>	<u>-</u>
Total U.S. Department of Justice			<u>21,792</u>	<u>-</u>
<u>U.S. Environmental Protection Agency</u>				
Passed through the Texas Commission of Environmental Quality:				
Nonpoint Source Implementation Grants - Sessom Creek Restoration	66.460	331925	120,000	-
Total Passed through the Texas Commission of Environmental Quality			<u>120,000</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>120,000</u>	<u>-</u>

(continued)

CITY OF SAN MARCOS, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2025

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL ASSISTANCE LISTING NUMBER	GRANTOR'S PASS-THROUGH NUMBER	FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
<u>U.S. Department of Transportation</u>				
Direct Programs:				
Federal Transit Formula Grants - Urbanize Area Formula Grant	20.507	TX-2024-037-01	\$ 882,273	\$ -
Federal Transit Formula Grants - CARES Act	20.507	TX-2023-049-01	133,421	-
Federal Transit Formula Grants - Urbanize Area Formula Grant	20.507	TX-2024-053-01	2,569,118	-
Federal Transit Formula Grants - Urbanize Area Formula Grant	20.507	TX-2024-054-01	3,067,701	-
Total Federal Assistance Listing Number 20.507			<u>6,652,513</u>	<u>-</u>
Passed through the Texas Department of Transportation:				
San Marcos Regional Airport ACRGP	20.106	24MPSMRCO	130,348	-
San Marcos Regional Airport ACRGP	20.106	21TWSMRCO	32,613	-
San Marcos Regional Airport ACRGP	20.106	22CVSMRCO	84,334	-
Total Federal Assistance Listing Number 20.106			<u>247,295</u>	<u>-</u>
Total Passed through the Texas Department of Transportation			<u>247,295</u>	<u>-</u>
Total U.S. Department of Transportation			<u>6,899,808</u>	<u>-</u>
<u>U.S. Department of Treasury</u>				
Direct Program:				
Coronavirus State and Local Fiscal Recovery Funds	21.027		<u>5,372,049</u>	<u>-</u>
Total U.S. Department of Treasury			<u>5,372,049</u>	<u>-</u>
<u>U.S. General Service Administration</u>				
Direct Programs:				
Federal Surplus Program - 2025	39.003		<u>29,457</u>	<u>-</u>
Total U.S. General Service Administration			<u>29,457</u>	<u>-</u>
<u>U.S. Department of Homeland Security</u>				
Pass through the Office of the Texas Governor:				
State and Local Cybersecurity Grant - Penetration Testing	97.137	5186101	28,350	-
State and Local Cybersecurity Grant - Mitigation	97.137	5159801	63,130	-
Total Federal Assistance Listing Number 97.137			<u>91,480</u>	<u>-</u>
Pass through the Texas Division of Emergency Management:				
Public Assistance - May Storm	97.036	FEMA DR 4781	<u>54,286</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>145,766</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 17,989,688</u>	<u>\$ 236,001</u>

CITY OF SAN MARCOS, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended September 30, 2025

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of San Marcos, Texas (the City), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

(2) Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

(3) Indirect cost rate

The City has not elected to use the 10% de minimis indirect cost rate.

CITY OF SAN MARCOS, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended September 30, 2025

Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued Unmodified

Internal Control Over Financial Reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Noncompliance material to financial statements noted? None

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None Reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? None

Identification of Major Programs:

Federal Assistance Listing Number

#21.027 Coronavirus State and Local Fiscal Recovery Funds – American Rescue Plan Act of 2021

Dollar threshold used to distinguish between Type A and Type B programs \$1,000,000

Auditee qualified as low-risk auditee? Yes

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Major Federal Award Programs

None

CITY OF SAN MARCOS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended September 30, 2025

None