

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2020

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2020

TABLE OF CONTENTS

	<u>Page(s)</u>
Principal Officials	1
Independent Auditors' Report	2-4
Financial Statements:	
Statement of Net Position	5
Statement of Activities	6
Balance Sheet – Governmental Funds	7
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	9-11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12-13
Statement of Fiduciary Net Position – Fiduciary Funds	14
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	15
Notes to Financial Statements	16-44
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	45
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Revenue Fund	46
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Revenue Fund CARES	47

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2020

TABLE OF CONTENTS

	<u>Page(s)</u>
Notes to Required Supplementary Information	48-49
Other Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Capital Improvements Fund	50
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund	51
Auditors' Section:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52-53
Schedule of Findings and Questioned Costs	54-55
Summary Schedule of Prior Year Findings	56

CITY OF SOCORRO, TEXAS

PRINCIPAL OFFICIALS

Name

Title

Ivy Avalos

Mayor

City Council

Ruben Reyes

At Large Representative

Cesar Nevarez

Mayor Pro-Tem/ District 1
Representative

Ralph Duran

District 2 Representative

Victor Perez

District 3 Representative

Yvonne Colon-Villalobos

District 4 Representative

City Administration

Adriana Rodarte

City Manager

Charles Casiano, CPA

Finance Director

Olivia Navarro

City Clerk

INDEPENDENT AUDITORS' REPORT

To Honorable Mayor Ivy Avalos
and Council Members of City of Socorro, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the City of Socorro, Texas ("the City") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of Socorro, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

SBNG

CERTIFIED PUBLIC ACCOUNTANTS

221 N. KANSAS, STE 1300

EL PASO, TX 79901

WWW.SBNGCPA.COM

(Continued)

To Honorable Mayor Elia Garcia
and Council Members of City of Socorro, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Socorro, Texas, as of September 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a Budgetary Comparison for the General Fund and the Special Revenue Fund as shown on pages 44 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Socorro, Texas' basic financial statements. The budgetary comparison schedules for the debt service fund and capital improvements fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

(Continued)

To Honorable Mayor Ivy Avalos
and Council Members of City of Socorro, Texas

Other Matters (Continued)

Other Information (Continued)

The budgetary comparison for the debt service fund and the budgetary comparison for the capital improvements fund, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison for the debt service fund, and the budgetary comparison for the capital improvements fund, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2021, on our consideration of City of Socorro, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Socorro, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Socorro, Texas' internal control over financial reporting and compliance.

SBNG, PC

El Paso, Texas
May 20, 2021

CITY OF SOCORRO, TEXAS
STATEMENT OF NET POSITION

September 30, 2020

<u>ASSETS</u>	Governmental Activities
Cash and cash equivalents	\$ 1,259,821
Restricted cash	2,821,899
Investments	9,847,678
Taxes receivable	3,214,664
Grants receivable	39,129
Other receivables, net	206,440
Prepaid expenses	52,970
Other assets	5,000
Non-depreciable capital assets	4,335,496
Depreciable capital assets, net of accumulated depreciation	<u>39,173,422</u>
Total assets	<u>60,956,519</u>
 <u>LIABILITIES</u> 	
Accounts payable	697,705
Accrued liabilities	255,479
Deferred revenue	177,728
Due within one year:	
Compensated absences	69,681
Bonds payable	1,225,000
Due in more than one year:	
Bonds payable, net	<u>28,729,220</u>
Total liabilities	<u>31,154,813</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u> 	
Deferred inflows of resources related to gain from retirement of bond	<u>98,780</u>
Total deferred inflows of resources	<u>98,780</u>
 <u>NET POSITION</u> 	
Net position:	
Invested in capital assets, net of related debt	13,554,698
Restricted	8,149,082
Unrestricted	<u>7,999,146</u>
Total net position	<u>\$ 29,702,926</u>

The accompanying notes are an integral
part of these financial statements.

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2020

<u>FUNCTIONS/PROGRAMS</u>	<u>Direct Expenses</u>	Program Revenues			Net Revenue (Expenses) and Changes in Net Position Governmental Activities
		<u>Charges for Services, Fees, Fines and Forfeitures</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Infrastructure and environmental	\$ 3,799,009	\$ 895,159	\$ 445,537	\$	\$ (2,458,313)
Public safety	4,090,501				(4,090,501)
General government	1,875,548	53,183			(1,822,365)
Community development	619,185		111,106		(508,079)
Health and human services	439,444				(439,444)
Justice system	344,386	500,396			156,010
Interest on long-term debt	772,278				(772,278)
Bond issuance costs	<u>117,844</u>	<u> </u>	<u> </u>	<u> </u>	<u>(117,844)</u>
Total governmental activities	<u>\$ 12,058,195</u>	<u>\$ 1,448,738</u>	<u>\$ 556,643</u>	<u>\$</u>	<u>(10,052,814)</u>
		General revenues:			
					9,476,101
					1,713,701
					655,919
					106,236
					460
					179,000
					<u>58,694</u>
					<u>12,190,111</u>
					2,137,297
					<u>27,565,629</u>
					<u>\$ 29,702,926</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2020

	General Fund	Special Revenue Fund-Grants	Special Revenue Fund-CARES	Debt Service Fund	Capital Improvements Fund	Total Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents	\$1,180,995	\$ 78,826	\$	\$	\$	\$ 1,259,821
Restricted cash		820,381	242,917	475,250	1,283,351	2,821,899
Investments	3,778,427				6,069,251	9,847,678
Taxes receivable	2,490,529			724,135		3,214,664
Due from other funds	793,618	108,413			32,029	934,060
Grants receivable		39,129				39,129
Other receivables, net	206,440					206,440
Prepaid expenses	13,618			16,469	22,883	52,970
Total assets	<u>\$8,463,627</u>	<u>\$1,046,749</u>	<u>\$242,917</u>	<u>\$1,215,854</u>	<u>\$7,407,514</u>	<u>\$18,376,661</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 353,637	\$ 41,704	\$ 62,816	\$	\$ 239,548	\$ 697,705
Accrued expenses	177,595	12				177,607
Deferred revenue			177,728			177,728
Due to other funds	181,149	734,106	2,373	15,975	457	934,060
Total liabilities	<u>712,381</u>	<u>775,822</u>	<u>242,917</u>	<u>15,975</u>	<u>240,005</u>	<u>1,987,100</u>
Deferred inflows of resources:						
Deferred property taxes	1,233,966			449,881		1,683,847
Deferred court fees	142,992					142,992
Total deferred inflows of resources	<u>1,376,958</u>			<u>449,881</u>		<u>1,826,839</u>
Fund balances:						
Nonspendable	13,618			16,469	22,883	52,970
Restricted for:						
Debt service				733,529		733,529
Capital projects					7,144,626	7,144,626
Federal and state mandated		270,927				270,927
Committed for:						
Capital improvements	485,204					485,204
Minimum fund balance	1,577,871					1,577,871
Unassigned	4,297,595					4,297,595
Total fund balances	<u>6,374,288</u>	<u>270,927</u>		<u>749,998</u>	<u>7,167,509</u>	<u>14,562,722</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$8,463,627</u>	<u>\$1,046,749</u>	<u>\$242,917</u>	<u>\$1,215,854</u>	<u>\$7,407,514</u>	<u>\$18,376,661</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SOCORRO, TEXAS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION**

Year Ended September 30, 2020

Total fund balances of governmental funds in the balance sheet		\$ 14,562,722
Amounts reported in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets	59,565,343	
Accumulated depreciation	<u>(16,056,425)</u>	43,508,918
Deposits on hand are not considered current financial resources and not presented in the governmental funds		
		5,000
Deferred gains resulting from defeasance of bonds payable are not reported as a fund balance line item. All deferred gains or losses are presented in the statement of net position		
		(98,780)
Certain property tax revenues will be collected after year-end but are not available soon enough to pay for the current period expenditures and, therefore, are deferred on the modified accrual basis in governmental funds:		
Deferred property taxes	1,683,847	
Deferred court fees	<u>142,992</u>	1,826,839
Some liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position:		
Bonds payable, net	(29,954,220)	
Compensated absences	(69,681)	
Accrued interest	<u>(77,872)</u>	<u>(30,101,773)</u>
Total net position of governmental activities		<u>\$ 29,702,926</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF SOCORRO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

Year Ended September 30, 2020

<u>REVENUES</u>	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-CARES</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
Local grants	\$	\$ 111,106	\$	\$	\$	\$ 111,106
Property taxes	6,768,432			2,493,654		9,262,086
Sales taxes	1,713,701					1,713,701
Franchise taxes	644,214	11,705				655,919
Planning and zoning fees	895,159					895,159
Municipal court fines and fees	473,567					473,567
Federal and state grants		245,195	200,342			445,537
Charges for services	32,924	20,259				53,183
Investment income	36,190				70,046	106,236
Donated property		179,000				179,000
Other income	<u>41,359</u>	<u>16,521</u>	<u> </u>	<u>655</u>	<u>159</u>	<u>58,694</u>
Total revenues	<u>10,605,546</u>	<u>583,786</u>	<u>200,342</u>	<u>2,494,309</u>	<u>70,205</u>	<u>13,954,188</u>

(Continued)

CITY OF SOCORRO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(CONTINUED)**

Year Ended September 30, 2020

<u>EXPENDITURES</u>	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-CARES</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
Public safety	\$ 3,738,337	\$ 239,858	\$ 6,894	\$	\$	\$ 3,985,089
Infrastructure and environmental	2,518,111		4,155		2,391	2,524,657
General government	1,701,402	12,604	134,273			1,848,279
Community development	374,594	88,167	4,970			467,731
Health and human services	439,444					439,444
Justice system	344,085		301			344,386
Debt service:						
Principal				1,275,000		1,275,000
Interest				931,417		931,417
Bond issuance costs				115,558	2,286	117,844
Refinancing bond escrow				6,857,574		6,857,574
Capital outlay	<u>349,357</u>	<u>301,745</u>	<u>49,749</u>	<u> </u>	<u>2,128,814</u>	<u>2,829,665</u>
Total expenditures	<u>9,465,330</u>	<u>642,374</u>	<u>200,342</u>	<u>9,179,549</u>	<u>2,133,491</u>	<u>21,621,086</u>

(Continued)

CITY OF SOCORRO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(CONTINUED)**

Year Ended September 30, 2020

	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-CARES</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>OTHER FINANCING SOURCES</u>						
Proceeds from bond issuance	\$	\$	\$	\$ 6,330,000	\$	\$ 6,330,000
Proceeds from premium on bond issuance				659,601		659,601
Gain on disposal of assets	<u>27,595</u>	_____	_____	_____	_____	<u>27,595</u>
Total other financing sources	<u>27,595</u>	_____	_____	<u>6,989,601</u>	_____	<u>7,017,196</u>
Net change in fund balance	1,167,811	(58,588)		304,361	(2,063,286)	(649,702)
Fund balance, beginning of the year	<u>5,206,477</u>	<u>329,515</u>	_____	<u>445,637</u>	<u>9,230,795</u>	<u>15,212,424</u>
Fund balance, end of the year	<u><u>\$ 6,374,288</u></u>	<u><u>\$ 270,927</u></u>	<u><u>\$</u></u>	<u><u>\$ 749,998</u></u>	<u><u>\$ 7,167,509</u></u>	<u><u>\$ 14,562,722</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF SOCORRO, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Year Ended September 30, 2020

Net change in fund balances – total governmental funds \$ (649,702)

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Net book value of disposed assets	(27,135)	
Capital outlays	2,829,665	
Depreciation expense	<u>(1,553,296)</u>	1,249,234

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:

Change in unavailable revenue related to property taxes	214,015	
Change in unavailable revenue related to municipal court	<u>26,829</u>	240,844

The proceeds from certificates of obligation and premiums provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

(6,989,601)

Funds in the refunding bond escrow are not considered a current financial resource, therefore, they are not reported in the funds.

6,857,574

Bond premiums are amortized using the straight-line method over the term of bonds payable. Interest expense in the statement of activities is reduced by bond premium amortization recognized every year.

153,985

The deferred gain on defeasance of bonds is amortized using the straight-line method over the term of the refunding bond payable. Interest expense in the statement of activities is reduced by the deferred gain amortization recognized every year.

5,811

(Continued)

CITY OF SOCORRO, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
(CONTINUED)**

Year Ended September 30, 2020

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.	\$ 1,275,000
Certain items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Change in accrued interest payable	(657)
Change in compensated absences payable	<u>(5,191)</u>
Change in net position of governmental activities	<u>\$ 2,137,297</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SOCORRO, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

September 30, 2020

<u>ASSETS</u>	<u>Pension Trust Fund</u>
Cash and cash equivalents	\$ 39,687
Contributions receivable	<u>3,864</u>
	<u>43,551</u>
Investments, at fair value:	
Fixed investment	398,959
Asset allocation	282,075
Large-cap stocks	221,319
Balanced	97,024
Mid-cap stocks	49,478
Small-cap stocks	41,996
International stocks	24,293
Bonds	6,676
Specialty	<u>393</u>
Total investments	<u>1,122,213</u>
Total assets	<u>1,165,764</u>
 <u>NET POSITION</u> 	
Held in-trust for pension benefits	<u>\$1,165,764</u>

The accompanying notes are an integral
part of these financial statements.

CITY OF SOCORRO, TEXAS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

Year Ended September 30, 2020

<u>ADDITIONS</u>	<u>Pension Trust Fund</u>
Contributions:	
Employer	\$ 129,104
Plan members	<u>149,246</u>
Total contributions	<u>278,350</u>
Investment earnings:	
Net increase in fair value of investments	<u>89,905</u>
Total investment earnings	<u>89,905</u>
Total additions	<u>368,255</u>
<u>DEDUCTIONS</u>	
Benefits	<u>96,279</u>
Total deductions	<u>96,279</u>
Change in net assets	271,976
Net position, beginning of the year	<u>893,788</u>
Net position, end of the year	<u>\$ 1,165,764</u>

The accompanying notes are an integral
part of these financial statements.

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

The City of Socorro, Texas (“the City”) operates under a Home Rule City with five council members and a Mayor. The Mayor and one council member are elected at large, and the remaining four council members are elected in single-member Districts. By ordinance, the City is required to have a City Manager. The City provides general services, public safety, public works, public health, community and economic development, court services and community development.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the City is presented to assist in the understanding of the City’s financial statements. The financial statements and notes are the representation of the City’s management who is responsible for their integrity and objectivity. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government entities.

Reporting Entity – In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, No. 39, No. 61, No. 80, and No. 90.

Component units are legally separate organizations for which the City is financially accountable, or other organizations whose nature and significant relationship with the City are such that exclusion would cause the City’s financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the Component Unit’s Board, and (i) either the City’s ability to direct the Organization or (ii) the potential for the Organization to provide a financial benefit to or impose a financial burden on the City.

Blended component units, although legally separate entities are, in substance, part of the City’s operations. Accordingly, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize their legal and operational separation from the government.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Unit –

The City of Socorro Community Initiative – Established to solicit and receive contributions, gifts and grants for the purpose of accumulating a perpetual endowment to supplement, augment and assist in sustaining the operating and capital requirements of the City of Socorro, Texas, its subsidiaries and affiliates, and to make grants or other payments to or for the benefit of the City in order to promote community development, arts and culture, historic preservation and tourism, and economic success in the City of Socorro, Texas. The Corporation was established in 2019 as a 501(c)(3) Organization and therefore, it is exempt from federal income tax. The Corporation meets the requirements for blending because its governing body is appointed by the City’s Council and is managed as a department of the City under the direction of the City’s management. The Corporation’s activities are reported in the City’s governmental activities as a special revenue fund. Separate financial statements are not prepared for the Corporation. The Corporation’s fiscal year ends on December 31. The City of Socorro Community Initiative did not have any activity during the year ended September 30, 2020.

Government-Wide and Fund Financial Statements – The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the City. The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not included among program revenues are reported instead as general revenue.

The City has five major individual governmental funds, which are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property tax revenues are recognized in the year for which they are levied.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued) – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Grants and entitlements and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the City receives cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

In addition to assets and liabilities, the government fund balance sheet and the government-wide statement of net position may report separate sections of deferred outflows of resources and deferred inflows of resources. Accounting policies regarding deferred inflows and outflows of resources are explained on pages 23 and 36.

Fund Accounting – The City’s accounting system is operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts for recording its assets, liabilities, revenues, expenditures, and fund balances. The various funds are for the purpose of carrying on specific activities or to obtain certain objectives. The various funds are grouped by type in the financial statements.

The City reports the following major governmental funds:

General Fund – The general fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund-Grants – The Special Revenue Fund – Grants is used to account for the expenditures of state and local awards that have been restricted to be used in public service. Grant revenue is recognized when compliance with the various contract requirements are achieved. In addition, the fund is also used to account for funds that have been internally assigned for public safety, as well as other fees resulting from contracts with external law enforcement agencies.

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued) –

Special Revenue Fund-CARES – The Special Revenue Fund – CARES is used to account for the expenditures of CARES Act funding that have been restricted to be used for responding to the COVID-19 health emergency. Grant revenue is recognized as expenditures are incurred, and any unused funds are presented as refundable grant advances in the Statement of Net Position.

Debt Service Fund – The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on the City’s general obligation debt.

Capital Projects Fund – The capital projects fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or assets that will be held in-trust for individuals, private organizations, or other governments.

The City reports the following fiduciary fund:

Pension Trust Fund – The pension trust fund is used to account for the receipt, investment, and distribution of retirement contributions. The City’s plan is an eligible deferred compensation 457 plan that is administered through a qualifying trust. Under the Plan, the City serves as a custodian but does not direct investments on each individual’s account.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict current guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of the interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of fiscal year-end. Under the modified accrual basis, interest and charges for services are considered to be both measurable and available at fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures – On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Budgets and Budgetary Accounting – The City is required by the Texas Constitution to adopt an annual balanced budget. The City Council officially adopts the annual budget ordinance and all project ordinances and has the authority to amend such ordinances. All budgets are prepared on the budgetary basis of accounting as required by Texas law.

Cash, Cash Equivalents, and Investments – Funds on deposit were maintained in interest bearing accounts and secured at the balance sheet date by the Federal Deposit Insurance Corporation and U.S. Government Securities.

State statutes authorize the City to invest in Certificates of Deposit, repurchase agreements, passbook, bankers' acceptances, and other available bank investments, provided that approved securities are pledged in an amount equal to 102% of the amount of funds on deposit.

For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the City, are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Investments (Continued) – Restricted cash represents certain unexpended long-term debt funding restricted for specific capital projects and special revenue projects.

Property Tax Calendar – The City is responsible for the assessment, collection, and apportionment of property taxes. The Council levies property taxes on October 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$1,078,982,411 for the year ended September 30, 2020. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31, of the year following in which levied. On January 1, of each year, a tax lien attaches to property to secure the payment of tax revenues, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable in the current period. The City’s 2019-2020 tax rate was \$.837502, per \$100 of assessed valuation. The City incurred expenditures of \$106,098 and \$11,067 for the services provided by El Paso Central Appraisal District and City of El Paso Tax Collector respectively, for the year ended September 30, 2020.

Receivables and Payables – Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near-market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting funds and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The City periodically evaluates the collectability of its accounts receivable. An allowance is set up for some accounts which the City believes may be uncollectible over time. Accounts deemed uncollectible are written off at that time. The City is in the process of evaluating their allowance policy in order to adequately reflect the receivables they deem to be collectible. In the government-wide and governmental fund financial statements delinquent property taxes are recorded as revenue when levied net of estimated refunds and uncollectable amounts.

Accounts receivable are stated net of an allowance for doubtful accounts. Management periodically evaluates the collectability of its accounts receivable. The allowance for doubtful accounts amounted to \$6,382,495 at September 30, 2020.

Inventory – The City’s method of accounting for inventory is the consumption method. Under the consumption approach, governments report inventories they purchase as an asset and defer the recognition of the expenditures until the period in which the inventories are consumed. Inventory is valued at cost and consists of gas inventory. The cost of purchased gas is recorded as an expenditure at the time the City utilizes the gas.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and Contracts Receivable – Grants and contracts receivable are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on an evaluation of the facts and circumstances related to each account. At September 30, 2020, management determined all outstanding grants and contracts receivable to be fully collectable. Accordingly, no allowance has been established.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. No interest was included as part of the cost of capital assets under construction.

Depreciation is determined using the straight-line method over the estimated useful lives of the capital assets.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings, structures, and improvements	39-40
Machinery and equipment	5
Vehicles	5
Office furniture and equipment	5-7
Software	3
Infrastructure	22-45
Leasehold improvements	39

Impairment of Long-Lived Assets – Impairment of assets takes place when the fair value of the long-term asset is less than its book (carrying) value. The impairment loss is recorded only when the carrying value of the asset is not recoverable and exceeds its fair value. The City does not have any impaired assets as of September 30, 2020.

Compensated Absences –The City’s leave policy allows paid time off to regular full-time employees depending on length of service. Calculation is based on a “benefit year” which is the twelve-month period that begins when an employee starts earning paid time off. The maximum accrual to be carried over to the next fiscal year is 40 hours. Employees who exceed 40 hours available to carry over to the next fiscal year will lose the excess accrued hours. Sick leave is not paid out upon termination.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond discounts and premiums are deferred and amortized over the life of the bonds using a method that approximates the effective interest method. Bonds payable are reported net of the applicable bond discounts or premiums. Bond issuance costs, with the exception of prepaid bond insurance, are reported as expenses in the period incurred. In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issue costs. Bond and other long-term debt proceeds are reported as another financing source net of applicable premium or discount. Issue costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Deferred Outflows of Resources and Deferred Inflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time. The fund basis financial statements include deferred inflows of resources related to unavailable property tax revenues and court fees.

Fund Balance Classification Policies and Procedures – In the fund financial statements, governmental fund balances are classified as follows:

Nonspendable fund balance – Amounts that cannot be spent because they are either not in a spendable form (such as inventory, long-term loans, and prepaid amounts) or are legally or contractually required to be maintained. At September 30, 2020, nonspendable fund balance consisted of prepaid expenses in the amount of \$52,970.

Restricted fund balance – Amounts that should be reported when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. At September 30, 2020, the restricted fund balance on the governmental funds was \$8,149,082, of which \$733,529 is restricted for debt service, \$7,144,626 is restricted for capital projects, and \$270,927 is restricted for federal and state mandated programs.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification Policies and Procedures (Continued) –

Committed fund balance – For committed fund balance, the City’s highest level of decision-making authority is the City Council. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council. The committed fund balance of \$485,204 at September 30, 2020 was composed of funds reserved for future infrastructure projects. The City Council also established a policy to maintain a minimum fund balance. The minimum fund balance reserve was \$1,577,871 at September 30, 2020.

Assigned fund balance – The City Council or the City Manager is authorized to assign amounts to a specific purpose. The authorization policy is in governmental funds other than the general fund. Assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. There was no assigned fund balance at September 30, 2020.

Unassigned fund balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund. At September 30, 2020, the unassigned fund balance of the governmental funds was \$4,297,595.

Minimum Fund Balance Policy – In fiscal year 2011, the City adopted a minimum fund balance policy for the General Fund. The City’s goal is to achieve and maintain an unassigned fund balance in the general fund equal to 16.67% of expenditures. The City considers a balance of less than 8.34% to be cause for concern, barring unusual or deliberate circumstances. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance. Minimum fund balance for the general fund as of September 30, 2020 is \$1,577,871, which is considered to be committed fund balance. At September 30, 2020, the City’s unassigned fund balance amounted to \$4,297,595 which met the established percentage requirement.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position – Net position is displayed in three components:

- 1) Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted net position – consists of net position with constraints placed on their use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Net Position/Fund Balance Flow Assumptions – The City may elect to fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements and restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted balances to have been depleted before unrestricted balances are applied.

Internal Balances – Amounts reported in the fund financial statements as interfund receivables, payables and advances, if any, are eliminated in the government-wide governmental columns of the statement of net position.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

DEPOSITS AND INVESTMENTS

The City's deposits and investments are managed pursuant to its Investment Policy, which is approved annually by the City Council. The Investment Policy primarily emphasizes safety of principal, liquidity, prudent investing activities, and optimization of investment return. The safety and preservation of principal is to remain the primary objective. The policy addresses investment diversification, yield, and maturity; as well as requiring training for personnel in charge of monitoring investments. The Investment Policy also defines the type of investments in which the City may invest its funds.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (Continued)

Cash Deposits

Total deposits held by the City as of September 30, 2020 had a bank balance of \$4,083,665. The bank balance differs from the register cash balance of \$1,259,821 and restricted cash of \$2,821,899 due to checks and deposits that were in transit at the end of the fiscal year.

Custodial Credit Risk - Deposits – The City’s policy requires the collateralization of all funds on deposit with a depository bank, other than investments in excess of \$100,000. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. Securities pledged as collateral shall be held by an independent third-party with whom the City has a current custodial agreement. Management evaluates the exposure to custodial credit risk for deposits exceeding the amount insured by the FDIC by comparing the amounts of cash on hand to collateralized funds. At September 30, 2020, pledged collateral funds securing the City’s deposits had a fair market value of \$4,009,035, in addition to the FDIC insurance coverage for up to \$250,000, which exceeded the City’s bank balances totaling \$4,083,665.

Investments

Interest Rate Risk – It is the City’s policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates. The City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than two years from the date of purchase. The maximum maturity for repurchase agreements shall be 120 days, and the composite portfolio should have a weighted average maturity of 36 days or less.

Credit Risk – The City’s policy for restricting investment instruments is consistent with Texas state law. The City will minimize credit risk by limiting investments to the safest types of investments, pre-qualifying the financial institutions and broker/dealers with which the City will do business and diversifying the investment portfolio so that potential losses on individual issuers are minimized. In accordance with state law, investments in investment pools must be rated at least AAA by at least one nationally recognized rating service and seek to maintain a net asset value of \$1.00 per share. All of the City's investments are rated at least AAA by at least one nationally recognized rating service.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

In addition, the City’s policy establishes the following maximum limits, by instrument, for its total investment portfolio:

1. U.S. Treasury securities	100%
2. Agencies and instrumentalities	85%
3. Certificates of deposit	100%
4. Repurchase agreements, excluding flexible repurchase agreements for bond proceeds investments	20%
5. Money market mutual funds	50%
6. Authorized pools	50%

The City had the following investments at September 30, 2020:

	<u>Cost</u>	<u>Fair Value/ Carrying Value</u>	<u>Measurement Method</u>
Maintenance and Operations	\$3,778,427	\$3,778,427	Amortized Cost
Capital Projects	<u>6,069,251</u>	<u>6,069,251</u>	Amortized Cost
 Total LOGIC Investments	 <u>\$9,847,678</u>	 <u>\$9,847,678</u>	

LOGIC is a local government investment pool organized and existing as a business trust under the laws of the State of Texas with all participant funds and all investment assets held and managed in trust by a Board of Trustees for the benefit of the participants. The units in LOGIC have not been registered under the Securities Act of 1933, as amended, or any state securities law. Its general investment objective is safety of principal, liquidity in accordance with the operating requirements of the participants, and a competitive rate of return. The portfolio seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time. LOGIC’s Board of Trustees has determined, in good faith, that it is in the best interests of the portfolio and the unitholders to maintain a stable net asset value of \$1.00 per unit, by virtue of utilization of the amortized cost method which generally approximates the market value of the assets and has been deemed to be a proxy for fair value. The portfolio will continue to use such method only so long as the Board believes that it fairly reflects the market-based net asset value per unit. Units of LOGIC are currently rated “AAA” by Standard & Poor’s. Further information is available at the LOGIC website www.logic.org.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

PROPERTY TAX AND OTHER RECEIVABLES

Property tax and other receivables consist of the following at September 30, 2020:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Property taxes:			
Property taxes, current	\$ 930,353	\$	\$ 930,353
Property taxes, delinquent	<u>1,779,992</u>	<u> </u>	<u>1,779,992</u>
	2,710,345		2,710,345
Sales taxes and franchise fees	<u>504,319</u>	<u> </u>	<u>504,319</u>
Taxes receivable	<u>\$3,214,664</u>	<u>\$ </u>	<u>\$3,214,664</u>
Other receivables:			
Court warrants	<u>\$6,588,935</u>	<u>\$(6,382,495)</u>	<u>\$ 206,440</u>

GRANTS RECEIVABLE

Grants receivable arise from amounts due to the City from granting agencies for allowable expenditures not reimbursed at year-end. Grants receivable consisted of the following at September 30, 2020:

Texas Office of the Governor	\$38,432
U.S. Marshals Task Force	<u>697</u>
Total	<u>\$39,129</u>

(Continued)

CITY OF SOCORRO, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

INTERFUND RECEIVABLES AND PAYABLES

The composition of the City's interfund balances as of September 30, 2020 is as follows:

<u>Receivable Fund</u>	<u>Due to other fund</u>	<u>Due from other funds</u>
General Fund	\$181,149	\$793,618
Special Revenue Fund-Grants	734,106	108,413
Special Revenue Fund-CARES	2,373	
Debt Service Fund	15,975	
Capital Improvements Fund	<u>457</u>	<u>32,029</u>
Total	<u>\$934,060</u>	<u>\$934,060</u>

CAPITAL ASSETS

The following is a summary of capital assets and changes occurring for governmental activities during the year ended September 30, 2020:

	<u>Balance at September 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>Balance at September 30, 2020</u>
Non-depreciable capital assets:					
Land	\$2,820,493	\$	\$	\$	\$2,820,493
Construction in progress	<u>2,925,976</u>	<u>1,948,184</u>	_____	<u>(3,359,157)</u>	<u>1,515,003</u>
Total non-depreciable capital assets	<u>5,746,469</u>	<u>1,948,184</u>	_____	<u>(3,359,157)</u>	<u>4,335,496</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS (Continued)

	Balance at September 30, 2019	Additions	Disposals	Reclassifications	Balance at September 30, 2020
Depreciable capital assets:					
Infrastructure	\$43,878,120	\$380,837	\$	\$3,351,415	\$47,610,372
Machinery and equipment	2,386,556	49,784			2,436,340
Buildings	2,298,792	12,440		7,742	2,318,974
Vehicles	1,806,795	413,240	(27,595)		2,192,440
Furniture	346,358				346,358
Leasehold improvements	212,942				212,942
Software	<u>87,241</u>	<u>25,180</u>	<u> </u>	<u> </u>	<u>112,421</u>
	<u>51,016,804</u>	<u>881,481</u>	<u>(27,595)</u>	<u>3,359,157</u>	<u>55,229,847</u>
Less accumulated depreciation for:					
Infrastructure	(10,130,803)	(1,096,879)			(11,227,682)
Machinery and equipment	(1,890,308)	(94,871)			(1,985,179)
Buildings	(796,459)	(130,517)			(926,976)
Vehicles	(1,162,352)	(211,024)	460		(1,372,916)
Furniture	(330,367)	(6,023)			(336,390)
Leasehold improvements	(114,647)	(5,017)			(119,664)
Software	<u>(78,653)</u>	<u>(8,965)</u>	<u> </u>	<u> </u>	<u>(87,618)</u>
Total accumulated depreciation	<u>(14,503,589)</u>	<u>(1,553,296)</u>	<u>460</u>	<u> </u>	<u>(16,056,425)</u>
Depreciable capital assets, net	<u>36,513,215</u>	<u>671,815</u>	<u>(27,135)</u>	<u> </u>	<u>39,173,422</u>
Total capital assets, net	<u>\$42,259,684</u>	<u>\$1,276,369</u>	<u>\$ (27,135)</u>	<u>\$ </u>	<u>\$43,508,918</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the government for the year ended September 30, 2020 as follows:

General government	\$ 22,078
Public safety	105,412
Community development	151,454
Infrastructure and environmental	<u>1,274,352</u>
 Total depreciation expense	 <u>\$1,553,296</u>

LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2020:

	<u>Balance at September 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2020</u>	<u>Due Within One Year</u>
Compensated absences	\$ 64,490	\$ 167,300	\$ (162,109)	\$ 69,681	\$ 69,681
Bonds payable, net	<u>31,355,769</u>	<u>6,989,601</u>	<u>(8,391,150)</u>	<u>29,954,220</u>	<u>1,225,000</u>
	<u>\$31,420,259</u>	<u>\$7,156,901</u>	<u>\$(8,553,259)</u>	<u>\$30,023,901</u>	<u>\$1,294,681</u>

Totals of principal and interest components equal required minimum payments for periods shown, and total principal equals the net present value of these bonds and notes.

Compensated absences

The City's leave policy allows employees to accumulate paid-time-off up to 40 hours per year. Upon termination, any accumulated paid-time-off will be paid to the employee. As of September 30, 2020, employees had approximately 3,424 hours of accumulated paid-time-off.

Total accrued compensated absences	<u>\$69,681</u>
------------------------------------	-----------------

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Bonds Payable

The City issued \$2,700,000 of Combination Tax and Revenue Certificates of Obligation, Series 2011. Interest rate varies from 2.00% to 4.25% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning September 2011 through March 2031. The original bond issue included an offering premium of \$65,529 to be amortized over the life of the bond. The effective yield rate is approximately 3.94%.	\$1,855,000
The City issued \$9,265,000 of Combination Tax and Revenue Certificates of Obligation, Series 2014. Interest rate varies from 2.00% to 5.00% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning July 2014 through March 2034. The original bond issue included an offering premium of \$730,088 to be amortized over the life of the bond. The effective yield rate is approximately 3.79%.	7,715,000
The City issued \$3,510,000 of General Obligations Refunding Bonds, Series 2016 to refund \$3,500,000 of outstanding 2008 Combination Tax and Revenue bonds. Interest rate varies from 2.00% to 4.00% over the term of the bonds. Varying principal and interest payments are due beginning September 2016 through March 2028. The principal payments are due annually and interest payments are due on a semi-annual basis. The original bond issue included an offering premium of \$356,559 to be amortized over the life of the bond. The effective yield rate is approximately 2.22%.	2,840,000
The City issued \$9,635,000 of Combination Tax and Revenue Certificates of Obligation, Series 2019. Interest rate is 3% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning March 2020 through March 2039. The original bond issue included an offering premium of \$539,552 to be amortized over the life of the bond. The effective yield rate is approximately 2.67%.	9,495,000
The City issued \$6,330,000 of General Obligation Refunding Bonds, Series 2020 to refund \$6,750,000 of outstanding principal of Series 2010 Certificates, Series 2012 Certificates, and Series 2012 Bonds. Interest rate is 3% to 4% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning March 2020 through March 2032. The original bond issue included an offering premium of \$659,601 to be amortized over the life of the bond. The effective yield rate is approximately 2.67%.	<u>6,225,000</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Total bonds payable outstanding	\$28,130,000
Unamortized bond premium	<u>1,824,220</u>
Total bonds payable, net	<u>29,954,220</u>
Total long-term debt	<u>\$30,023,901</u>

Annual debt service for the outstanding bonds is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2021	\$ 1,225,000	\$ 992,575	\$ 2,217,575
2022	1,265,000	955,888	2,220,888
2023	1,305,000	916,038	2,221,038
2024	1,345,000	874,913	2,219,913
2025	1,395,000	830,763	2,225,763
2026-2030	7,775,000	3,342,488	11,117,488
2031-2035	8,715,000	1,629,269	10,344,269
2036-2039	<u>5,105,000</u>	<u>312,075</u>	<u>5,417,075</u>
Totals	<u>\$28,130,000</u>	<u>\$9,854,009</u>	<u>\$37,984,009</u>

Total of principal and interest components equal required minimum payments for periods shown, and total principal equals the net present value of these bonds and notes.

Amortization of bond premiums totaling \$153,985 is included in interest expense for the year ended September 30, 2020.

Bonds Payable

The portion of Series 2011 bond certificates having a stated maturity of March 1 in the years 2021, 2023, 2025, 2027, 2029, and 2031 are subject to mandatory sinking fund redemption prior to maturity at face value plus any accrued interest at the redemption date on the respective dates and in principal amounts as follows:

Term Certificate due March 1, 2021:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2021	\$125,000

(Continued)

CITY OF SOCORRO, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

Term Certificate due March 1, 2023:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2022	\$125,000
March 1, 2023	\$135,000

Term Certificate due March 1, 2025:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2024	\$140,000
March 1, 2025	\$145,000

Term Certificate due March 1, 2027:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2026	\$150,000
March 1, 2027	\$155,000

Term Certificate due March 1, 2029:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2028	\$160,000
March 1, 2029	\$170,000

Term Certificate due March 1, 2031:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2030	\$175,000
March 1, 2031	\$375,000

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

The portion of Series 2014 bond certificates having a stated maturity of March 1, 2032 are subject to mandatory sinking fund redemption prior to maturity at face value plus any accrued interest at the redemption date on the respective dates and in principal amounts as follows:

Term Certificate due March 1, 2032:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2031	\$425,000
March 1, 2032	\$440,000

The portion of Series 2019 bond certificates having a stated maturity of March 1 in the years 2030, 2032, and 2034 are subject to mandatory sinking fund redemption prior to maturity at face value plus any accrued interest at the redemption date on the respective dates and in principal amounts as follows:

Term Certificate due March 1, 2030:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2029	\$225,000
March 1, 2030	\$230,000

Term Certificate due March 1, 2032:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2031	\$240,000
March 1, 2032	\$245,000

Term Certificate due March 1, 2034:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2033	\$255,000
March 1, 2034	\$260,000

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Bond Defeasance

In January 2020, the City issued \$6,330,000 in General Obligations Refunding Bonds, Series 2020 to refund \$6,750,000 of outstanding principal of Series 2010 Certificates, Series 2012 Certificates, and Series 2012 Bonds. The net refunding proceeds of \$6,857,574 (including a \$659,601 premium and after payment of \$132,027 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the Series 2010 Certificates, Series 2012 Certificates, and Series 2012 Bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The carrying balance of the defeased bonds amounted to \$6,962,165, which included \$212,165 of unamortized bond premiums. The reacquisition price exceeded the net carrying amount of the Series 2010 Certificates, Series 2012 Certificates, and Series 2012 Bonds by \$98,780, which includes amortization expense of \$5,811 for the year ended September 30, 2020. This amount is reported as a deferred inflow of resources and amortized over the remaining life of the refunding debt, which has the same remaining life as the refunded debt.

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues in the amount of \$1,826,839 at September 30, 2020, represent revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unavailable revenue received after 60 days is fully recognized as revenue on the government-wide statements. Unavailable revenue at the government-wide level arises only when the City receives resources before it has a legal claim to them. The City has recorded \$1,683,847 related to property taxes, and \$142,992 related to municipal court warrants.

RESTRICTED NET POSITION AND RESTRICTED FUND BALANCE

Restricted net position and restricted fund balance consist of those funds that are restricted for use, and include the following:

Capital projects	\$7,144,626
Debt service	733,529
Federal and state mandated	<u>270,927</u>
Total	<u>\$8,149,082</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITTED FUND BALANCE

Committed fund balance consists of those funds that can be spent only for specific purposes as determined by City Council, and includes the following:

Safe Routes to School	\$ 245,452
Future Arterial (1-1682 Tigua P.E.)	<u>239,752</u>
Capital improvements	485,204
Minimum fund balance	<u>1,577,871</u>
Total	<u>\$2,063,075</u>

DEFERRED COMPENSATION PLAN

All City employees are eligible to participate in the City’s Deferred Compensation Plan (the “Plan”) adopted under the provisions of the Internal Revenue Code 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The Plan is administered by Nationwide Retirement Solutions and is a defined contribution plan. Under the terms of the Plan, employees may contribute up to 10% of their earnings into an annuity contract. The City matches 5% of the participants’ contribution into the Plan. Employee and employer contributions into the Plan become 100% vested immediately. The City’s contribution into the Plan for the fiscal year ended September 30, 2020 totaled \$129,104, and the employees contributed \$162,110.

RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amounts of loss can be reasonably estimated. The City is a participant in an intergovernmental risk pool for its workers’ compensation, liability, and property insurance. Participants in this pool are required to pay “premiums” on the insurance selected. Should a loss occur, the City is liable only for the deductible. The risk pool purchases reinsurance to cover future losses.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

RISK MANAGEMENT (Continued)

During fiscal year ended 2020, the City contracted with Texas Municipal League Intergovernmental Risk Pool for liability, property, and crime damage. Coverages provided by the risk pool are as follows:

Real and Personal Property	\$4,305,396
Boiler and Machinery (Per Accident)	\$100,000
Mobile Equipment	\$1,256,916
Crime Insurance:	
Public Employee Dishonesty (Per Occurrence)	\$500,000
Forgery or Alteration (Per Occurrence)	\$500,000
Theft Disappearance and Destruction (Per Occurrence)	\$500,000
Computer Fraud (Per Occurrence)	\$100,000

The City had no changes in insurance coverage from the prior year, and there were no settlements that exceeded insurance coverage in the last two years.

COMMITMENTS AND CONTINGENCIES

Texas Department of Transportation

The City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the design of Arterial 1 in the City of Socorro. The City will coordinate the architectural and engineering services involving the project. The agreement originated in August 2020 and calls for a one-time payment of \$1,045 to begin the project. The agreement established a projected budget of \$5,017,506, out of which \$3,062,466 is the estimated federal match, \$654,670 is the estimated state match, and \$1,300,370 is the estimated local government’s match. There were no expenses related to the project at September 30, 2020.

In July 2020, the City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the construction of a shared use path on Passmore Road. The City will be responsible for providing architectural and engineering services for the construction phase of the project, in addition to providing maintenance to the project after completion. The agreement became effective on the date of execution and will remain in effect until completion of the project. The established projected budget amounts to \$786,527, out of which \$605,425 is the estimated federal match, \$29,745 is the estimated state match, and \$151,357 is the estimated local government’s match. The City made a one-time payment of \$12,833 to begin the project. There were no additional expenses related to the project at September 30, 2020.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

Texas Department of Transportation (Continued)

In June 2020, the City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the rehabilitation of the bridge located at Rio Vista Road at Franklin Canal. The City will be responsible for the adjustment, removal, or relocation of utility facilities, as deemed necessary. The agreement became effective on the date of execution and will remain in effect until completion of the project. The established projected budget amounts to \$1,535,615, out of which \$56,818 is the estimated local government’s match. There were no expenses related to the project at September 30, 2020.

In June 2020, the City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the rehabilitation of the bridges located at Bovee Road at Franklin Canal. The City will be responsible for the adjustment, removal, or relocation of utility facilities, as deemed necessary. The agreement became effective on the date of execution and will remain in effect until completion of the project. The established projected budget amounts to \$1,491,316, out of which \$55,179 is the estimated local government’s match. There were no expenses related to the project at September 30, 2020.

County of El Paso

The City entered into an interlocal agreement with the County of El Paso in which the City received animal control services by and through the El Paso County Sheriff’s Office. The period of the initial contract began on January 1, 2017. The contract was renewed for an additional three-year term, beginning on October 1, 2018, and ending on September 30, 2021. The renewal establishes a contract amount of \$63,455 for each year, to be paid in equal quarterly installments of \$15,864.

City of El Paso

The City entered into an interlocal agreement with the City of El Paso in which the City received public health services from the City of El Paso, including but not limited to providing food handling permits, disease control and immunization services. The period of the contract began on September 1, 2018 and ended on August 31, 2020. Total compensation for the services was \$287,204 for the year ended September 30, 2020.

Emergency Ambulance Services

The City entered into an agreement with Elite Medical Transport of Texas, LLC (“Elite”) to provide emergency ambulance services to individuals within the city limits. The services are to be provided on a “full time” basis, which constitute 365 days a year for 24 hours a day. In addition, Elite agrees to maintain a full-time dispatch center at 1000 Texas Avenue, El Paso, Texas. The agreement became effective in October 2019 and runs through September 30, 2020 with the option to renew for an additional year.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

El Paso County Water Improvement District No. 1

The City entered into an interlocal agreement with the El Paso County Water Improvement District No. 1 (“the District”), for the temporary right of use and easement of various street crossings that are located within the City’s jurisdiction but which right of way belongs to the District. The agreement has a 25-year term beginning in January 2018 and expiring December 31, 2042, and may be renewed for additional 25-year periods as considered necessary. The purpose of the easement is for the City to be able to perform construction projects and maintenance improvements on the various street crossings. The City is responsible for performing ongoing maintenance to each of the street crossings, as regularly needed, and shall allow the District to access any of the areas as requested. In consideration for the right of use, the agreement requires an administrative fee of \$6,500 and three payments of \$109,150, beginning in March 2018, due on each anniversary of the agreement. The second and third installments are to be adjusted for inflation based on changes in consumer price indexes. The City’s policy is to capitalize each of the payments made in connection with the land easement as non-depreciable capital assets unless a change in facts and circumstances indicates that the agreement will not be renewed after the initial 25-year period. As of September 31, 2020, all three payments were made by the City and no balances remained outstanding.

Other Governmental Agencies

The City’s police department entered into various contracts with the U.S. Marshal Service, the Federal Bureau of Investigation, and the Drug Enforcement Administration, for the purpose of the reimbursement of costs incurred by the City of Socorro Police Department in providing resources to joint operations task forces. These agreements remain in force unless explicitly terminated in writing by either party. Reimbursements received from task force agreements totaled \$20,259 for the year ended September 30, 2020.

Federal and State Awards

In the normal course of operations, the City receives grant awards from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Liability for reimbursement of unallowed costs and other non-compliance with grant award contracts, as well as penalties, may arise as the result of these audits.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

During 2020, the City recognized total litigation settlement expense of \$270,620, which is included as general government expenses in the general fund. Among various legal proceedings, a significant portion of the total expense represents a settlement for a suit involving alleged damages to multiple parties as a result of flooding from storm water that occurred in July 2013. From the original group of plaintiffs, one party's claim remained open as of September 30, 2020. In addition, the City is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City and, therefore, no liability was accrued at September 30, 2020.

Construction Contracts

The City has contracts with general contractors and professional engineering providers for the design, construction, and supervision of various infrastructure projects. The City expects the contracts to be completed or renewed within a one-year term.

Coronavirus Aid, Relief, and Economic Security Act ("CARES Act")

In July 2020, the City entered an interlocal subrecipient grant agreement with the County of El Paso where the City was awarded funds appropriated under the CARES Act. The purpose of this grant is to provide funds to mitigate the financial burden caused by the COVID-19 pandemic by allowing the City to incur expenses for governmental functions and services which qualify under the CARES Act as compensable expenses by the United States Department of the Treasury. The agreement stipulates that a minimum of 75% of its allotment will be spent in the categories of medical expenses, public health expenses and payroll expenses for employees substantially dedicated to mitigating or responding to public emergency. The total allotment to the City amounted to \$1,890,350. Of this amount, \$378,070 was distributed in March 2020 and the remaining \$1,512,280 is to be disbursed on a reimbursable basis. The original term of the agreement was through December 1, 2020. As of September 30, 2020, the City expended \$200,342 of CARES funds.

In October 2020, the County of El Paso amended the interlocal subrecipient grant to remove the requirement that 75% of grant funds be spent in the categories of medical expenses, public health expenses and payroll expenses and to extend the term of the agreement from December 1, 2020 through December 30, 2020. In addition, in November 2020, the El Paso County amended the agreement to allow the City to subcontract with vendors, organizations, non-profits and businesses on COVID-19 related matters. In January 2021, the County extended the term of the agreement to December 31, 2021.

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

CONCENTRATION OF REVENUE

The City depends on financial resources flowing from, or associated with, the constituents of the City, El Paso County, and the State of Texas. Because of this dependency, the City is subject to changes in the specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

During the fiscal year ended September 30, 2020, approximately 67% of the City's total revenues were from property taxes.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2017, GASB Statement No. 84, "Fiduciary Activities," was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The primary objective of this Statement is to improve guidance regarding identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The City is evaluating how this pronouncement will affect the financial statements.

In June 2017, GASB Statement No. 87, "*Leases*," was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City is evaluating how this pronouncement will affect the financial statements.

In April 2018, GASB Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*," was issued. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. The primary objective to this Statement is to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is evaluating how this pronouncement will affect the financial statements.

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In June 2018, GASB Statement No. 89, “*Accounting for Interest Cost Incurred before the End of a Construction Period*,” was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The City is evaluating how this pronouncement will affect the financial statements.

In August 2018, GASB Statement No. 90, “*Majority Equity Interest – An Amendment of GASB No. 14 and No. 61*,” was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The City is evaluating how this pronouncement will affect the financial statements.

In May 2019, GASB Statement No. 91, “*Conduit Debt Obligations*,” was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The City is evaluating how this pronouncement will affect the financial statements.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In May 2020, GASB Statement No. 95, "*Postponement of the Effective Dates of Certain Authoritative Guidance*," was issued. This Statement is intended to provide temporary relief to governments and other stakeholders considering the COVID-19 pandemic. This Statement amended the effective date of Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*," No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*," No. 90, "*Majority Equity Interest – An Amendment of GASB No. 14 and No. 61*," and Statement No. 91, "*Conduit Debt Obligations*," to be postponed by one year and Statement No. 87, "*Leases*," to be postponed by 18 months.

SUBSEQUENT EVENTS

In November 2020, the City defeased \$1,730,000 relating to outstanding principal of Series 2011 Certificates (referred to as the "Refunded Obligation") by placing new bond proceeds from 2020 general obligation refinance bonds in an irrevocable trust to provide for future debt service payments on the defeased bonds. At the time of refinance, the outstanding principal less the unrefunded balance on the refunded obligations was re-purchased for a total cost of \$1,765,013. The difference between the refinanced principal at the refinance date and the repurchase price, plus certain debt issuance costs, was recognized as a deferred loss in bond refinancing.

In November 2020, the City entered into an agreement with LiftFund Inc. (the "Subrecipient"), with the purpose of supporting small businesses located in the City of Socorro. The program will dedicate \$350,000 to small business recovery grants, which will amount to up to \$20,000 per business. The Subrecipient will be paid an administrative fee of 8% in connection with the scope of the program, which will begin on December 3, 2020 and end on December 30, 2020.

Subsequent events were evaluated through May 20, 2021 which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues/inflows:				
Property taxes	\$ 6,506,613	\$6,506,613	\$6,768,432	\$ 261,819
Sales taxes	1,550,000	1,550,000	1,713,701	163,701
Municipal court fines and fees	652,000	652,000	473,567	(178,433)
Franchise taxes	650,000	650,000	644,214	(5,786)
Planning and zoning fees	428,500	828,500	895,159	66,659
Charges for services	52,000	52,000	32,924	(19,076)
Investment income	45,200	45,200	36,190	(9,010)
Gain on disposal of assets			27,595	27,595
Other income	<u>17,100</u>	<u>17,100</u>	<u>41,359</u>	<u>24,259</u>
 Total revenues	 <u>9,901,413</u>	 <u>10,301,413</u>	 <u>10,633,141</u>	 <u>331,728</u>
Expenditures/outflows:				
Public safety	3,858,168	3,782,168	3,738,337	43,831
Infrastructure and environmental	2,610,621	2,771,421	2,518,111	253,310
General government	1,992,088	1,888,130	1,701,402	186,728
Community development	490,926	421,626	374,594	47,032
Health and human services	757,300	757,515	439,444	318,071
Justice system	393,870	393,770	344,085	49,685
Capital outlay	<u>349,357</u>	<u>349,357</u>	<u>349,357</u>	<u> </u>
 Total expenditures	 <u>10,452,330</u>	 <u>10,363,987</u>	 <u>9,465,330</u>	 <u>898,657</u>
 Excess (deficiency) of revenues over expenditures	 (550,917)	 (62,574)	 1,167,811	 1,230,385
 Fund balance, beginning of year	 <u>5,206,477</u>	 <u>5,206,477</u>	 <u>5,206,477</u>	 <u> </u>
 Fund balance, end of year	 <u>\$ 4,655,560</u>	 <u>\$5,143,903</u>	 <u>\$6,374,288</u>	 <u>\$ 1,230,385</u>

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - GRANTS**

Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Local grants	\$	\$	\$111,106	\$ 111,106
Federal and state grants	979,306	979,306	245,195	(734,111)
Franchise taxes			11,705	11,705
Property taxes	270,000	270,000		(270,000)
Charges for services			20,259	20,259
Donated property			179,000	179,000
Other income			<u>16,521</u>	<u>16,521</u>
 Total revenues	 <u>1,249,306</u>	 <u>1,249,306</u>	 <u>583,786</u>	 <u>(665,520)</u>
Expenditures/outflows:				
Public safety	699,306	699,306	239,858	459,448
General government			12,604	(12,604)
Community development			88,167	(88,167)
Capital outlay	<u>550,000</u>	<u>550,000</u>	<u>301,745</u>	<u>248,255</u>
 Total expenditures	 <u>1,249,306</u>	 <u>1,249,306</u>	 <u>642,374</u>	 <u>606,932</u>
 Deficiency of revenues over expenditures			 (58,588)	 (58,588)
 Fund balance, beginning of year	 <u>329,515</u>	 <u>329,515</u>	 <u>329,515</u>	 <u> </u>
 Fund balance, end of year	 <u>\$ 329,515</u>	 <u>\$ 329,515</u>	 <u>\$270,927</u>	 <u>\$ (58,588)</u>

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - CARES**

Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Federal and state grants	\$ _____	\$ _____	\$200,342	\$ 200,342
Total revenues	_____	_____	<u>200,342</u>	<u>200,342</u>
Expenditures/outflows:				
Public safety			6,894	(6,894)
Infrastructure and environmental			4,155	(4,155)
General government			134,273	(134,273)
Community development			4,970	(4,970)
Justice system			301	(301)
Capital outlay	_____	_____	<u>49,749</u>	<u>(49,749)</u>
Total expenditures	_____	_____	<u>200,342</u>	<u>(200,342)</u>
Excess of revenues over expenditures				
Fund balance, beginning of year	_____	_____	_____	_____
Fund balance, end of year	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Information – Per the Texas Constitution, the budget officer of the City shall prepare each year a budget to cover the proposed expenditures of the municipal government for the year. The City Council officially adopts the annual budget ordinance and has the authority to amend such ordinances. All budgets are prepared on the budgetary basis of accounting as required by Texas Law.

The budgetary process is prescribed by provisions of Title 4, Chapter 102 of the Local Government Code of the Texas legislature and requires the preparation of budgetary documents within an established timetable. The major documents prepared are the certificate of estimated resources and the appropriation resolution, both of which are prepared on the budgetary basis of accounting.

The level of budgetary control is at the fund level for the City. Any budgetary modifications at this level may only be made by resolution of the City Council. Under the City's by-laws, revenues not specifically related to a particular fund shall be deposited into the City's General Fund. Monies can only be transferred from the General Fund by resolution of the City Council.

The accompanying Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual present comparisons of the legally adopted budgets with actual data on a budgetary basis. The budgetary basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). However, total revenues and expenditures have been reconciled to the totals as presented under GAAP.

Estimated Resources – The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified by resolution of the City Council. The official estimated resources states the projected revenue of each fund. At the Council's discretion, estimated resources may include unassigned fund balances available from prior year surplus revenues. All funds are required to be budgeted and appropriated.

On or about October 1, the estimated resources is amended to include any unencumbered balances from the preceding year. The estimated resources may be further amended during the year if the City Council determines that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year ended 2020.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations – An annual appropriation resolution must be passed by September 15 of the preceding year for the period October 1 to September 30. The appropriation resolution fixes spending authority at the fund and department level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among funds and objects within a fund may be modified during the year only by a resolution of the City Council. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriations in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as final budgeted amounts in the schedules of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations.

Lapsing of Appropriations – At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

BUDGET OVER-EXPENDITURES

The City over-expended its budget in the following areas:

Special Revenue Fund – Grants:	
General government	\$ <u>12,604</u>
Community development	\$ <u>88,167</u>

The Special Revenue Fund – CARES was not budgeted for and therefore all expenditures were budget over-expenditures as follows:

Public safety	\$ 6,894
Infrastructure	4,155
General government	134,273
Community development	4,970
Justice system	301
Capital outlay	<u>49,749</u>
	<u>\$200,342</u>

The Council made supplemental appropriations of excess revenues subsequent to year-end which were sufficient to cover the current year over-expenditures. The primary over-expenditures were related to police equipment, infrastructure improvements, overtime and repairs.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
CAPITAL IMPROVEMENTS FUND**

Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues/inflows:				
Investment income	\$	\$	\$ 70,046	\$ 70,046
Other income	<u> </u>	<u> </u>	<u>159</u>	<u>159</u>
Total revenues	<u> </u>	<u> </u>	<u>70,205</u>	<u>70,205</u>
Expenditures/outflows:				
Infrastructure and environmental			2,391	(2,391)
Debt issuance costs			2,286	(2,286)
Capital outlay	<u>10,200,000</u>	<u>10,200,000</u>	<u>2,128,814</u>	<u>8,071,186</u>
Total expenditures	<u>10,200,000</u>	<u>10,200,000</u>	<u>2,133,491</u>	<u>8,066,509</u>
Deficiency of revenues over expenditures	(10,200,000)	(10,200,000)	(2,063,286)	8,136,714
Fund balance, beginning of the year	<u>9,230,795</u>	<u>9,230,795</u>	<u>9,230,795</u>	<u> </u>
Fund balance, end of year	<u>\$ (969,205)</u>	<u>\$ (969,205)</u>	<u>\$ 7,167,509</u>	<u>\$ 8,136,714</u>

See independent auditors' report.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND**

Year Ended September 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$2,319,863	\$2,319,863	\$ 2,493,654	\$ 173,791
Proceeds from bond issuance			6,330,000	6,330,000
Proceeds from premium on bond issuance			659,601	659,601
Other income	<u> </u>	<u> </u>	<u>655</u>	<u>655</u>
Total revenues	<u>2,319,863</u>	<u>2,319,863</u>	<u>9,483,910</u>	<u>7,164,047</u>
Expenditures/outflows:				
Principal	1,245,000	1,245,000	1,275,000	(30,000)
Interest	1,074,863	1,074,863	931,417	143,446
Refinancing bond escrow			6,857,574	(6,857,574)
Bond issuance costs	<u> </u>	<u> </u>	<u>115,558</u>	<u>(115,558)</u>
Total expenditures	<u>2,319,863</u>	<u>2,319,863</u>	<u>9,179,549</u>	<u>(6,859,686)</u>
Excess of revenues over expenditures			304,361	304,361
Fund balance, beginning of the year	<u>445,637</u>	<u>445,637</u>	<u>445,637</u>	<u> </u>
Fund balance, end of year	<u>\$ 445,637</u>	<u>\$ 445,637</u>	<u>\$ 749,998</u>	<u>\$ 304,361</u>

See independent auditors' report.

SBNG

AUDITORS' SECTION

SBNG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 Honorable Mayor Ivy Avalos
and Council Members of City of Socorro, 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, and each major fund of the City of Socorro, Texas as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise City of Socorro, Texas' basic financial statements and have issued our report thereon dated May 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Socorro, Texas' internal control over financial reporting 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 City of Socorro, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Socorro, 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.

To Honorable Mayor Ivy Avalos
and Council Members of City of Socorro, Texas

Internal Control Over Financial Reporting (Continued)

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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Socorro, 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 determination of financial statement amounts. 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 result 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.

SBNG, PC

El Paso, Texas
May 20, 2021

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2020

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Socorro, Texas.
2. No significant deficiencies or material weaknesses were reported in the audit of the financial statements of City of Socorro, Texas as reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of City of Socorro, Texas, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

(Continued)

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Year Ended September 30, 2020

**II. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH “*GOVERNMENT
AUDITING STANDARDS*”**

Current Year Findings: None

See independent auditors' report.

CITY OF SOCORRO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2020

I. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH “GOVERNMENT AUDITING STANDARDS”

Finding 2019-001 (Repeated and Modified):

**Procurement of Administrative Services used for Texas Department of Agriculture Grant
Community Development Block Grants**

Prior Year Response: The City identified the procurement violation and self-reported to the Texas Department of Agriculture with the goal of identifying a path forward to proceed with the contract. The City supplied all documentation available to TDA in order to assist with the determination. The City received guidance, corrective actions, and approval from TDA to continue with the contract work.

Current Status: This finding has been corrected.