

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2019

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REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2019

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CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

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CITY OF SOCORRO, TEXAS

PRINCIPAL OFFICIALS

Name

Title

Elia Garcia

Mayor

City Council

Rene Rodriguez

At Large Representative

Cesar Nevarez

District 1 Representative

Ralph Duran

District 2 Representative

Victor Perez

Mayor Pro-Tem/ 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 Elia Garcia
and 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, 2019, 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 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, 2019, 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 to 47 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 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 Elia Garcia
and Members of City of Socorro, Texas

Other Matters

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 7, 2020, 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 7, 2020

CITY OF SOCORRO, TEXAS
STATEMENT OF NET POSITION

September 30, 2019

<u>ASSETS</u>	Governmental Activities
Cash and cash equivalents	\$ 4,036,674
Restricted cash	9,939,000
Investments	242,517
Taxes receivable	2,645,252
Grants receivable	182,654
Other receivables, net	187,752
Prepaid expenses	44,502
Other assets	5,000
Non-depreciable capital assets	5,746,469
Depreciable capital assets, net of accumulated depreciation	<u>36,513,215</u>
Total assets	<u>59,543,035</u>
 <u>LIABILITIES</u> 	
Accounts payable	312,262
Accrued liabilities	244,885
Due within one year:	
Compensated absences	64,490
Bonds payable	1,170,000
Due in more than one year:	
Bonds payable, net	<u>30,185,769</u>
Total liabilities	<u>31,977,406</u>
 <u>NET POSITION</u> 	
Net position:	
Invested in capital assets, net of related debt	10,903,915
Restricted	9,980,778
Unrestricted	<u>6,680,936</u>
Total net position	<u>\$ 27,565,629</u>

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

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2019

<u>FUNCTIONS/PROGRAMS</u>	<u>Direct Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expenses) and Changes in Net Position Governmental Activities</u>
		<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	\$ 3,712,314	\$ 556,578	\$ 390,108	\$ 8,572,031	\$ 5,806,403
Public safety	3,545,033				(3,545,033)
General government	1,682,501	16,612			(1,665,889)
Community development	623,252				(623,252)
Health and human services	414,669				(414,669)
Justice system	267,140	449,647			182,507
Interest on long-term debt	715,975				(715,975)
Bond issuance costs	<u>148,934</u>	<u> </u>	<u> </u>	<u> </u>	<u>(148,934)</u>
Total governmental activities	<u>\$ 11,109,818</u>	<u>\$ 1,022,837</u>	<u>\$ 390,108</u>	<u>\$ 8,572,031</u>	<u>(1,124,842)</u>
		General revenues:			
					8,115,642
					1,517,123
					645,113
					3,869
					<u>60,821</u>
				Total general revenues	<u>10,342,568</u>
				Change in net position	9,217,726
				Net position, beginning of year	<u>18,347,903</u>
				Net position, end of year	<u>\$ 27,565,629</u>

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

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$3,879,015	\$157,659	\$	\$	\$ 4,036,674
Restricted cash		391,973	280,340	9,266,687	9,939,000
Investments	242,517				242,517
Taxes receivable	2,108,645		536,607		2,645,252
Due from other funds	548,786	116,424		37,990	703,200
Grants receivable		182,654			182,654
Other receivables, net	187,752				187,752
Prepaid expenses	<u>19,333</u>			<u>25,169</u>	<u>44,502</u>
Total assets	<u>\$6,986,048</u>	<u>\$848,710</u>	<u>\$816,947</u>	<u>\$9,329,846</u>	<u>\$17,981,551</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 200,092	\$ 13,576	\$	\$ 98,594	\$ 312,262
Accrued expenses	167,670				167,670
Due to other funds	<u>181,149</u>	<u>505,619</u>	<u>15,975</u>	<u>457</u>	<u>703,200</u>
Total liabilities	<u>548,911</u>	<u>519,195</u>	<u>15,975</u>	<u>99,051</u>	<u>1,183,132</u>
Deferred inflows of resources:					
Deferred property taxes	1,114,497		355,335		1,469,832
Deferred court fees	<u>116,163</u>				<u>116,163</u>
Total deferred inflows of resources	<u>1,230,660</u>		<u>355,335</u>		<u>1,585,995</u>
Fund balances:					
Nonspendable	19,333			25,169	44,502
Restricted for:					
Debt service			445,637		445,637
Capital projects				9,205,626	9,205,626
Federal and state mandated		329,515			329,515
Committed for:					
Capital improvements	485,204				485,204
Minimum fund balance	1,489,281				1,489,281
Unassigned	<u>3,212,659</u>				<u>3,212,659</u>
Total fund balances	<u>5,206,477</u>	<u>329,515</u>	<u>445,637</u>	<u>9,230,795</u>	<u>15,212,424</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$6,986,048</u>	<u>\$848,710</u>	<u>\$816,947</u>	<u>\$9,329,846</u>	<u>\$17,981,551</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, 2019

Total fund balances of governmental funds in the balance sheet		\$ 15,212,424
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	56,763,273	
Accumulated depreciation	<u>(14,503,589)</u>	42,259,684
Deposits on hand are not considered current financial resources and not presented in the governmental funds:		
		5,000
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	1,469,832	
Deferred court fees	<u>116,163</u>	1,585,995
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	(31,355,769)	
Compensated absences	(64,490)	
Accrued interest	<u>(77,215)</u>	<u>(31,497,474)</u>
Total net position of governmental activities		<u>\$ 27,565,629</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, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>					
Local grants	\$	\$	\$	\$ 8,572,031	\$ 8,572,031
Property taxes	6,090,426		1,934,786		8,025,212
Sales taxes	1,517,123				1,517,123
Franchise taxes	635,379	9,734			645,113
Planning and zoning fees	556,578				556,578
Municipal court fines and fees	458,241				458,241
Federal and state grants		390,108			390,108
Charges for services	7,296	9,316			16,612
Investment income	2,533			1,336	3,869
Other income	<u>20,993</u>	<u>32,704</u>	<u> </u>	<u>7,124</u>	<u>60,821</u>
Total revenues	<u>9,288,569</u>	<u>441,862</u>	<u>1,934,786</u>	<u>8,580,491</u>	<u>20,245,708</u>

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2019

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>EXPENDITURES</u>					
Public safety	\$ 3,320,109	\$ 139,576	\$	\$	\$ 3,459,685
Infrastructure and environmental	2,638,369			49,279	2,687,648
General government	1,538,762	103,545		6,389	1,648,696
Community development	482,819				482,819
Health and human services	414,669				414,669
Justice system	267,140				267,140
Debt service:					
Principal			1,000,000		1,000,000
Interest			787,163		787,163
Bond issuance costs				148,934	148,934
Capital outlay	<u>272,033</u>	<u>90,107</u>	<u> </u>	<u>10,019,160</u>	<u>10,381,300</u>
Total expenditures	<u>8,933,901</u>	<u>333,228</u>	<u>1,787,163</u>	<u>10,223,762</u>	<u>21,278,054</u>

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Improvements Fund	Total Governmental Funds
<u>OTHER FINANCING SOURCES</u>					
Proceeds from bond issuance				9,635,000	9,635,000
Proceeds from premium on bond issuance				539,552	539,552
Total other financing sources				10,174,552	10,174,552
Net change in fund balance	354,668	108,634	147,623	8,531,281	9,142,206
Fund balance, beginning of the year	4,851,809	220,881	298,014	699,514	6,070,218
Fund balance, end 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>

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, 2019

Net change in fund balances – total governmental funds \$ 9,142,206

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:

Capital outlays	10,381,300	
Depreciation expense	<u>(1,273,464)</u>	9,107,836

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	90,430	
Change in unavailable revenue related to municipal court	<u>(8,594)</u>	81,836

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. (10,174,552)

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. 87,391

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. 1,000,000

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	(16,203)	
Change in compensated absences payable	<u>(10,788)</u>	<u>(26,991)</u>

Change in net position of governmental activities \$ 9,217,726

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

CITY OF SOCORRO, TEXAS

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

September 30, 2019

<u>ASSETS</u>	<u>Pension Trust Fund</u>
Cash and cash equivalents	\$ 30,594
Contributions receivable	<u>106</u>
	<u>30,700</u>
Investments, at fair value:	
Fixed investment	323,758
Asset allocation	166,933
Large-cap stocks	164,275
Balanced	54,871
Mid-cap stocks	47,799
Short-term	46,241
Small-cap stocks	28,049
International stocks	20,204
Bonds	5,730
Specialty	<u>5,228</u>
Total investments	<u>863,088</u>
Total assets	<u>893,788</u>
 <u>NET POSITION</u> 	
Held in trust for pension benefits	<u>\$893,788</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, 2019

<u>ADDITIONS</u>	<u>Pension Trust Fund</u>
Contributions:	
Employer	\$107,786
Plan members	<u>139,555</u>
Total contributions	<u>247,341</u>
Investment earnings:	
Net increase in fair value of investments	<u>17,963</u>
Total investment earnings	<u>17,963</u>
Total additions	<u>265,304</u>
<u>DEDUCTIONS</u>	
Benefits	<u>24,150</u>
Total deductions	<u>24,150</u>
Change in net assets	241,154
Net position, beginning of the year	<u>652,634</u>
Net position, end of the year	<u>\$893,788</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 begin operations until fiscal year 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 four 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 18 and 29.

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 – The Special Revenue Fund 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) –

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.

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.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Exchange and Non-Exchange Transactions (Continued) – 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.

Restricted cash represents certain unexpended long-term debt funding restricted for specific capital projects and special revenue projects.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,032,809,430 for the year ended September 30, 2019. 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 2018-2019 tax rate was \$.752457, per \$100 of assessed valuation. The City incurred expenditures of \$95,339 and \$11,035 for the services provided by El Paso Central Appraisal District and City of El Paso Tax Collector respectively, for the year ended September 30, 2019.

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 \$6,213,995 at September 30, 2019.

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, 2019, 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, 2019.

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, 2019, nonspendable fund balance consisted of prepaid expenses in the amount of \$44,502.

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, 2019, the restricted fund balance on the governmental funds was \$9,980,778, out of which \$445,637 are restricted for debt service.

(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, 2019 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 \$1,489,281 at September 30, 2019.

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, 2019.

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, 2019, the unassigned fund balance of the governmental funds was \$3,212,659.

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, 2019 is \$1,489,281, which is considered to be committed fund balance.

(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.

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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, 2019 had a bank balance of \$14,095,495. The bank balance differs from the register cash balance of \$4,036,674 and restricted cash of \$9,939,000 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, 2019, pledged collateral funds securing the City’s deposits had a fair market value of \$14,874,955, which exceeded the City’s bank balances totaling \$14,095,495.

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, 2019:

	<u>Cost</u>	<u>Fair Value/ Carrying Value</u>	<u>Measurement Method</u>
Certificate of Deposit	\$149,077	\$149,077	Cost
LOGIC	<u>93,440</u>	<u>93,440</u>	Amortized Cost
	<u>\$242,517</u>	<u>\$242,517</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.

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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, 2019:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Property taxes:			
Property taxes, current	\$ 670,787	\$	\$ 670,787
Property taxes, delinquent	<u>1,548,872</u>	_____	<u>1,548,872</u>
	2,219,659		2,219,659
Sales taxes and franchise fees	<u>425,593</u>	_____	<u>425,593</u>
Taxes receivable	<u>\$2,645,252</u>	\$_____	<u>\$2,645,252</u>
Other receivables:			
Court warrants	<u>\$6,401,747</u>	<u>\$(6,213,995)</u>	<u>\$ 187,752</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, 2019:

City of El Paso	\$ 73,857
Texas Office of the Governor	56,779
Texas Department of Agriculture	30,818
U.S. Marshals Task Force	18,700
National Trust Grants Office	<u>2,500</u>
Total	<u>\$182,654</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, 2019 is as follows:

<u>Receivable Fund</u>	<u>Due to other fund</u>	<u>Due from other funds</u>
General Fund	\$181,149	\$548,786
Special Revenue Fund	505,619	116,424
Debt Service Fund	15,975	
Capital Projects Fund	<u>457</u>	<u>37,990</u>
Total	<u>\$703,200</u>	<u>\$703,200</u>

CAPITAL ASSETS

The following is a summary of capital assets and changes occurring for governmental activities during the year ended September 30, 2019:

	<u>Balance at September 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>Balance at September 30, 2019</u>
Non-depreciable capital assets:					
Land	\$2,820,493	\$	\$	\$	\$2,820,493
Construction in progress	<u>1,774,667</u>	<u>1,386,137</u>	_____	<u>(234,828)</u>	<u>2,925,976</u>
Total non-depreciable capital assets	<u>4,595,160</u>	<u>1,386,137</u>	_____	<u>(234,828)</u>	<u>5,746,469</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS (Continued)

	Balance at September 30, 2018	Additions	Disposals	Reclassifications	Balance at September 30, 2019
Depreciable capital assets:					
Infrastructure	\$34,962,863	\$8,680,429	\$	\$234,828	\$43,878,120
Machinery and equipment	2,401,536		(14,980)		2,386,556
Buildings	2,190,172	108,620			2,298,792
Vehicles	1,861,381	206,114	(260,700)		1,806,795
Furniture	368,841		(22,483)		346,358
Leasehold improvements	212,942				212,942
Software	<u>87,241</u>	<u> </u>	<u> </u>	<u> </u>	<u>87,241</u>
	<u>42,084,976</u>	<u>8,995,163</u>	<u>(298,163)</u>	<u>234,828</u>	<u>51,016,804</u>
Less accumulated depreciation for:					
Infrastructure	(9,311,805)	(818,998)			(10,130,803)
Machinery and equipment	(1,787,396)	(117,892)	14,980		(1,890,308)
Buildings	(668,322)	(128,137)			(796,459)
Vehicles	(1,243,964)	(179,088)	260,700		(1,162,352)
Furniture	(340,045)	(12,805)	22,483		(330,367)
Leasehold improvements	(109,630)	(5,017)			(114,647)
Software	<u>(67,126)</u>	<u>(11,527)</u>	<u> </u>	<u> </u>	<u>(78,653)</u>
Total accumulated depreciation	<u>(13,528,288)</u>	<u>(1,273,464)</u>	<u>298,163</u>	<u> </u>	<u>(14,503,589)</u>
Depreciable capital assets, net	<u>28,556,688</u>	<u>7,721,699</u>	<u> </u>	<u>234,828</u>	<u>36,513,215</u>
Total capital assets, net	<u>\$33,151,848</u>	<u>\$9,107,836</u>	<u>\$</u>	<u>\$</u>	<u>\$42,259,684</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, 2019 as follows:

General government	\$ 23,017
Justice system	18,876
Public safety	85,348
Community development	140,433
Infrastructure and environmental	<u>1,005,790</u>
 Total depreciation expense	 <u>\$1,273,464</u>

LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2019:

	<u>Balance at September 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2019</u>	<u>Due Within One Year</u>
Compensated absences	\$ 53,702	\$ 162,033	\$ (151,245)	\$ 64,490	\$ 64,490
Bonds payable, net	<u>22,268,608</u>	<u>10,174,552</u>	<u>(1,087,391)</u>	<u>31,355,769</u>	<u>1,170,000</u>
	<u>\$22,322,310</u>	<u>\$10,336,585</u>	<u>\$(1,238,636)</u>	<u>\$31,420,259</u>	<u>\$1,234,490</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, 2019, employees had approximately 3,090 hours of accumulated paid-time-off.

Total accrued compensated absences	<u>\$64,490</u>
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(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

Bonds Payable

In 2010, the City issued \$3,000,000 of Combination Tax and Revenue Certificates of Obligation, Series 2010. Interest rates varies from 2.00% to 4.00% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning October 2010 through March 2030. The original bond issue included an offering premium of \$109,138 to be amortized over the life of the bond. The effective yield rate is approximately 3.75%. \$2,175,000

The City issued \$2,300,000 of General Obligation Refunding Bonds, Series 2010. The proceeds of the Series 2010 bonds were used to refund a portion of the City's outstanding debt, including all the maturities of the Series 1999 bonds, Series 2001 Bonds, Series 2004 bonds, and to pay the costs of issuing the Series 2010 bonds. Interest rates vary from 2.00% to 4.00%, over the term of the bonds. Varying principal and interest payments are due semi-annually beginning March 2011 through March 2024. The original bond issue included an offering premium of \$89,672 to be amortized over the life of the bond. The effective yield rate is approximately 3.15%. 630,000

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%. 1,985,000

The City issued \$4,895,000 of Combination Tax and Revenue Certificates of Obligation, Series 2012. Interest rate varies from 2.00% to 3.50% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning August 2012 through March 2032. The original bond issue included an offering premium of \$235,806 to be amortized over the life of the bond. The effective yield rate is approximately 3.15%. 4,250,000

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

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%. \$7,995,000

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. Varying principal and interest payments mature on March 2028. 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%. 3,155,000

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%. 9,635,000

Total bonds payable outstanding 29,825,000
Unamortized bond premium 1,530,769

Total bonds payable, net 31,355,769

Total long-term debt \$31,420,259

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

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>
2020	\$ 1,170,000	\$ 1,033,791	\$ 2,203,791
2021	1,255,000	1,011,488	2,266,488
2022	1,295,000	970,938	2,265,938
2023	1,340,000	926,919	2,266,919
2024	1,385,000	881,375	2,266,375
2025-2029	7,735,000	3,602,581	11,337,581
2030-2034	9,355,000	1,990,219	11,345,219
2035-2039	<u>6,290,000</u>	<u>483,000</u>	<u>6,773,000</u>
Totals	<u>\$29,825,000</u>	<u>\$10,900,311</u>	<u>\$40,725,311</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.

Bonds Payable

The portion of Series 2010 bond certificates having a stated maturity of March 1, 2022 and March 1, 2024 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 Bond due March 1, 2022:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2021	\$125,000
March 1, 2022	\$125,000

Term Bond due March 1, 2024:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2023	\$130,000
March 1, 2024	\$130,000

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

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, 2020	\$130,000
March 1, 2021	\$125,000

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

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

Term Certificate due March 1, 2031:

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

The portion of Series 2012 bond certificates having a stated maturity of February 15 in the years 2028 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, 2020	\$20,000
March 1, 2021	\$30,000

Term Certificate due March 1, 2026:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2022	\$40,000
March 1, 2023	\$35,000
March 1, 2024	\$40,000
March 1, 2025	\$195,000
March 1, 2026	\$200,000

Term Certificate due March 1, 2028:

<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2027	\$205,000
March 1, 2028	\$215,000

(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)**

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues in the amount of \$1,585,995 at September 30, 2019, 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 \$1,469,832 related to property taxes, and \$116,163 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	\$9,205,626
Debt service	445,637
Federal and state mandated	<u>329,515</u>
Total	<u>\$9,980,778</u>

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>
	485,204
Minimum fund balance	<u>1,489,281</u>
Total	<u>\$1,974,485</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

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, 2019 totaled \$107,786, and the employees contributed \$139,555.

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.

During fiscal year ended 2019, 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	\$4,305,397
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.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES

Camino Real Regional Mobility Authority

Effective May 2016, the Camino Real Regional Mobility Authority (“the Authority”) entered into a Local Participation Advance Funding Agreement with TXDOT for the expansion and renovation of Nuevo Hueco Tanks Blvd. This agreement is an amendment and continuation of an older agreement between the City and TXDOT. Under the original agreement, the City coordinated engineering, environmental, right of way acquisition and utility adjustment activities. Such agreement originated in August 2004 and continued until 2016. Effective May 2016, the Authority replaced the City and assumed the local government’s matching requirements for construction and final engineering costs related to the Expansion of Nuevo Hueco Tanks Blvd. The new agreement established a projected budget of \$12,804,600, out of which \$7,311,200 is the estimated federal match, \$2,590,865 is the estimated state match, and \$2,902,535 is the estimated Authority’s match.

Upon the execution of the agreement between the Authority and TXDOT, the City entered into a separate interlocal agreement with the Authority, to define the City’s remaining responsibilities pertaining to the Nuevo Hueco Tanks Blvd. expansion project. As defined by the interlocal agreement, the City remains responsible for a match of \$54,698, out of which \$10,510 was paid as of September 30, 2019. Total costs for this project during 2019 were \$8,572,031. The Authority does not consider the City a sub-recipient and reports expenses as intergovernmental support. Accordingly, the \$8,572,031 expended for this project is recognized by the City as an in-kind donation. The project is subject to final review and close out by TXDOT.

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 in September 1, 2018 and ended on August 31, 2019. Total compensation for the services was \$254,942 for the year ended September 30, 2019. The contract was renewed for an additional one-year term, for a total amount of \$287,204 to be paid in quarterly installments.

(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, and 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.

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 \$9,316 for the year ended September 30, 2019.

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 2019, the City recognized total litigation settlement expense of \$70,000, 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, 2019. 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. A liability of \$32,000 was accrued at September 30, 2019 regarding a settlement payment for a termination of employment claim.

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.

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, 2019, approximately 40% of the City's total revenues were from property taxes.

NEW ACCOUNTING PRONOUNCEMENTS

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.

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

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 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.

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.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

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.

SUBSEQUENT EVENTS

In 2020, the City defeased \$6,750,000 relating to outstanding principal of Series 2010 Certificates, Series 2012 Certificates, and Series 2012 Bonds (collectively referred to as the “Refunded Obligations”) 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 \$6,857,574. 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.

During 2019 the City submitted a grant application to the Paso del Norte Health Foundation – IGNITE Initiative, the Texas Historical Commission, and the Victims of Crime Act Formula Grant Program. Awards were received subsequent to year end in the amount of \$123,055.

Subsequent events were evaluated through May 7, 2020 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, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$5,623,459	\$5,623,459	\$6,090,426	\$ 466,967
Sales taxes	1,500,000	1,500,000	1,517,123	17,123
Municipal court fines and fees	569,000	569,000	458,241	(110,759)
Franchise taxes	500,000	500,000	635,379	135,379
Planning and zoning fees	445,500	445,500	556,578	111,078
Charges for services	7,000	7,000	7,296	296
Investment income	1,400	1,400	2,533	1,133
Other income	<u>22,100</u>	<u>22,100</u>	<u>20,993</u>	<u>(1,107)</u>
 Total revenues	 <u>8,668,459</u>	 <u>8,668,459</u>	 <u>9,288,569</u>	 <u>620,110</u>
Expenditures/outflows:				
Public safety	3,400,047	3,388,902	3,320,109	68,793
Infrastructure and environmental	2,830,426	2,892,964	2,638,369	254,595
General government	1,555,370	1,618,348	1,538,762	79,586
Community development	466,779	497,829	482,819	15,010
Health and human services	600,000	600,000	414,669	185,331
Justice system	289,919	293,869	267,140	26,729
Capital outlay	<u>453,700</u>	<u>272,033</u>	<u>272,033</u>	<u> </u>
 Total expenditures	 <u>9,596,241</u>	 <u>9,563,945</u>	 <u>8,933,901</u>	 <u>630,044</u>
 Excess (deficiency) of revenues over expenditures	 (927,782)	 (895,486)	 354,668	 1,250,154
 Fund balance, beginning of year	 <u>4,851,809</u>	 <u>4,851,809</u>	 <u>4,851,809</u>	 <u> </u>
 Fund balance, end of year	 <u>\$3,924,027</u>	 <u>\$3,956,323</u>	 <u>\$5,206,477</u>	 <u>\$1,250,154</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**

Year Ended September 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Federal and state grants	\$ 297,415	\$297,415	\$390,108	\$ 92,693
Franchise taxes			9,734	9,734
Property taxes	230,400	230,400		(230,400)
Charges for services			9,316	9,316
Other income	<u> </u>	<u> </u>	<u>32,704</u>	<u>32,704</u>
Total revenues	<u>527,815</u>	<u>527,815</u>	<u>441,862</u>	<u>(85,953)</u>
Expenditures/outflows:				
Public safety	256,383	256,383	139,576	116,807
General government			103,545	(103,545)
Capital outlay	<u>271,432</u>	<u>271,432</u>	<u>90,107</u>	<u>181,325</u>
Total expenditures	<u>527,815</u>	<u>527,815</u>	<u>333,228</u>	<u>194,587</u>
Excess of revenues over expenditures			108,634	108,634
Fund balance, beginning of year	<u>220,881</u>	<u>220,881</u>	<u>220,881</u>	<u> </u>
Fund balance, end of year	<u>\$ 220,881</u>	<u>\$ 220,881</u>	<u>\$ 329,515</u>	<u>\$ 108,634</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 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual present comparisons of the legally adopted budget 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 2019.

(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:	
General government	<u>\$103,545</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, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Transfers from other funds	\$ 400,486	\$ 400,486	\$	\$ (400,486)
Local grants			8,572,031	8,572,031
Investment income			1,336	1,336
Proceeds from bond issuance			9,635,000	9,635,000
Proceeds from premium on bond issuance			539,552	539,552
Other income			<u>7,124</u>	<u>7,124</u>
 Total revenues	 <u>400,486</u>	 <u>400,486</u>	 <u>18,755,043</u>	 <u>18,354,557</u>
Expenditures/outflows:				
Infrastructure and environmental			49,279	(49,279)
General government			6,389	(6,389)
Debt issuance costs			148,934	(148,934)
Capital outlay	<u>1,100,000</u>	<u>1,100,000</u>	<u>10,019,160</u>	<u>(8,919,160)</u>
 Total expenditures	 <u>1,100,000</u>	 <u>1,100,000</u>	 <u>10,223,762</u>	 <u>(9,123,762)</u>
Excess (deficiency) of revenues over expenditures	(699,514)	(699,514)	8,531,281	9,230,795
Fund balance, beginning of the year	<u>699,514</u>	<u>699,514</u>	<u>699,514</u>	<u> </u>
Fund balance, end of year	<u>\$</u>	<u>\$</u>	<u>\$9,230,795</u>	<u>\$ 9,230,795</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, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	<u>\$1,787,163</u>	<u>\$1,787,163</u>	<u>\$1,934,786</u>	<u>\$147,623</u>
Total revenues	<u>1,787,163</u>	<u>1,787,163</u>	<u>1,934,786</u>	<u>147,623</u>
Expenditures/outflows:				
Principal	1,000,000	1,000,000	1,000,000	
Interest	<u>787,163</u>	<u>787,163</u>	<u>787,163</u>	_____
Total expenditures	<u>1,787,163</u>	<u>1,787,163</u>	<u>1,787,163</u>	_____
Excess of revenues over expenditures			147,623	147,623
Fund balance, beginning of the year	<u>298,014</u>	<u>298,014</u>	<u>298,014</u>	_____
Fund balance, end of year	<u>\$ 298,014</u>	<u>\$ 298,014</u>	<u>\$ 445,637</u>	<u>\$147,623</u>

See independent auditors' report.

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 GOVERNMENT AUDITING STANDARDS

To Honorable Mayor Elia Garcia
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, 2019, 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 7, 2020.

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 Elia Garcia
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. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2019-001 that we consider to be a significant deficiency.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2019-001.

City of Socorro, Texas' Response to Findings

City of Socorro Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Socorro, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 7, 2020

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2019

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Socorro, Texas.
2. A significant deficiency was reported in the audit of the financial statements of City of Socorro, Texas as reported in the Report in 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. An instance of non-compliance was disclosed by the audit of the financial statements of City of Socorro, Texas, which is required to be reported in accordance with *Government Auditing Standards*.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2019

**II. 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**

Criteria: The City of Socorro is a sub-recipient of the Texas Community Development Block Grant (TxCDBG). The Federal award (Contract No. 7218460) is administered by the Texas Department of Agriculture (“TDA”), has a term beginning October 2015 and ending October 2017, and has a purpose of providing funds for the construction of flood and drainage improvements on the Sparks Arroyo. The Texas Department of Agriculture project implementation policy requires that “All administration and professional services related to TxCDBG projects must be procured competitively, regardless of funds that will pay for the service contracts.” The policy does not permit a grant recipient to use a competitively procured professional services contract from a previously funded TxCDBG project. TxCDG Policy Issuance 18-01 also requires grant recipients to procure grant administration services contracts using a pool of firms pre-qualified by TDA for contracts anticipated to be \$50,000 or less.

Condition: During an interim monitoring review performed by the Texas Department of Agriculture, it was noted that the City of Socorro, Texas failed to conduct a separate procurement process for Contract No. 7218460 and opted to retain the services of the engineering firm procured under Contract No. 7215479. It was also noted by the awarding agency that the City followed the “traditional” method of procurement for services of \$32,808 which should have been procured through the use of the TDA pre-qualification process.

Cause: The City of Socorro, Texas failed to follow the required procurement process for hiring an external consulting agency for the purpose of administering Contract No. 7218460.

Effect: The Texas Department of Agriculture may impose programmatic sanctions, which may include disallowed costs or termination of funding.

Questioned Costs: Not applicable.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2019

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

Finding 2019-001 (Repeated and Modified):

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

Recommendation: We recommend that the Grants supervisor and the Finance Director review the City’s procurement policies and procedures and ensure compliance with applicable procurement standards. In addition, we recommend that the City’s internal auditor develop a plan to review all current relationships with external contractors and ensure all relationships are in compliance with all procurement standards applicable to the City.

Management’s Response: We agree with the finding. The City self-reported the procurement violation in October 2019 and requested the Texas Department of Agriculture to allow the City to use the same contracted engineering firm procured under the previous contract. We are currently working on implementing the corrective action plans provided to TDA.

Proposed Corrective Action: 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 their determination. The City received guidance, corrective actions, and approval from TDA to continue with the contract work. This finding was corrected in February 2020.

See independent auditors’ report.

CITY OF SOCORRO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2019

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

Finding 2018-001: Tracking and Recording Infrastructure Grants from Texas Department of Transportation

Prior Year Response: It is now obvious that the record keeping for such projects needs to be more widely disseminated and updated with all decision makers and recorders of such transactions so that it is clear what has and has not occurred. The City Manager, City Planner, Finance Director and Grants Coordinator (at a minimum) will meet on a quarterly basis to review such grants and determine the status of all grants in terms of reporting, recording and any pending audit items.

Current Status: This finding has been corrected.

Finding 2018-002: Procurement of Administrative Services used for Texas Department of Agriculture Grant

Prior Year Response: The City’s Grants Coordinator, Finance Director, and City Manager will hold a Grant Kick-Off meeting within thirty (30) days of any new TxCDBG grant contract execution and will review all contractual obligations of the new contract signed to include performance statements, budgets, implementation schedules, special conditions, and applicable laws and regulations. In addition, the City’s Grants Coordinator and Finance Director will further review the Financial Management uniform requirements in 2 CFR Part 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” as described in 24 CFR 570.502, and, to the extent applicable, the standards promulgated by the Office of the Comptroller under the Uniform Grant and Contract Management Act (Tex. Gov’t. Code Chapter 783, referred to as “UGCMS”).

(Continued)

CITY OF SOCORRO, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(CONTINUED)**

Year Ended September 30, 2019

Finding 2018-002: Procurement of Administrative Services used for Texas Department of Agriculture Grant (Continued)

To ensure that all TxCDBG Program requirements are met, including those related to competitive procurement procedures, the City's in-house Grants Coordinator will attend the annual TxCDBG Certified Administrator training and will forward a copy of this certification to the Human Resources Director for recordkeeping. The Grants Coordinator will ensure that the appropriate competitive procurement procedures are followed for all future TxCDBG Contract awards as per the TxCDBG Implementation Manual and retain all records documenting proof of having followed the appropriate procurement process in the project file. Furthermore, the City's Grants Coordinator shall attend training specific to the Texas Uniform Grant and Contract Management Standards ("UGCMS") and/or 2 CFR Part 200, commonly known as the Uniform Grants Guidance ("UGG") for federal awards, on an annual basis. When an external consultant is hired for the administration of any federal or state grant award, the City's Grants Coordinator will review documentation of compliance with applicable state and federal laws and regulations prior to payment of any administration contract fees by the City.

Current Status: Finding was repeated and modified. See Finding 2019-001.

Finding 2018-003: Inconsistent Application of Generally Accepted Accounting Principles

Prior Year Response: All year-end adjustments will be reviewed and evaluated to determine as they relate to the application of GAAP.

Current Status: This finding has been corrected.

Finding 2018-004: Use of External Consultant for the Administration of Texas Department of Agriculture Grant

Prior Year Response: As of this date, the City has complied with all of the requirements as stated in the desk review report issued by the Texas Department of Agriculture, which included corrective actions and a corrective action plan related to Native American Tribes consultations, HUD's environmental review training and requirements, and compliance with certified payroll report requirements as per all applicable labor standards. The corrective action plan and backup documentation showing proof of compliance with all required actions as per the desk review report has been submitted to TDA. The City will continue to provide proper follow up for Contract No. 7215479 until all follow-up requests by TDA are fulfilled and the City receives a formal letter of administrative closure of Contract No. 7215479. The grant close out report for Contract No. 7215479 has been updated and submitted to TDA.

Current Status: This finding has been corrected.