

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2022

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BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2022

TABLE OF CONTENTS

	<u>Page(s)</u>
Principal Officials	1
Independent Auditors' Report	2-5
Financial Statements:	
Statement of Net Position	6
Statement of Activities	7
Balance Sheet – Governmental Funds	8-9
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	11-13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14-15
Notes to Financial Statements	16-44
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	45-46
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Revenue Fund – Grants	47
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Special Revenue Fund – TRZ	48

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2022

TABLE OF CONTENTS

	<u>Page(s)</u>
Notes to Required Supplementary Information	49-51
Other Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Capital Improvements Fund	52
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund	53
Auditors' Section:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54-55
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	56-58
Schedule of Expenditures of Federal Awards	59-62
Notes to the Schedule of Expenditures of Federal Awards	63
Schedule of Findings and Questioned Costs	64-65
Summary Schedule of Prior Year Findings	66

CITY OF SOCORRO, TEXAS

PRINCIPAL OFFICIALS

Name

Title

Ivy Avalos

Mayor

City Council

Ruben Reyes

At Large Representative

Cesar Nevarez

District 1 Representative

Alejandro Garcia

District 2 Representative

Rudy Cruz, Jr.

District 3 Representative

Yvonne Colon-Villalobos

District 4 Representative

City Administration

Adriana Rodarte

City Manager

Charles Casiano, CPA

Finance Director

Olivia Navarro

City Clerk

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Socorro, Texas as of and for the year ended September 30, 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Socorro, Texas, as of September 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Socorro, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Socorro, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any current known information that may raise substantial doubt shortly thereafter.

(Continued)

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

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Socorro, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Socorro, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

(Continued)

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

Report on the Audit of the Financial Statements (Continued)

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 45 through 48 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Socorro, Texas' basic financial statements. The budgetary comparison schedules for the capital improvements fund and debt service fund, and the accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

(Continued)

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

Report on the Audit of the Financial Statements (Continued)

Supplementary Information (Continued)

The budgetary comparison for the capital improvements fund, the budgetary comparison for the debt service fund, and the schedule of expenditures of federal awards 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 capital improvements fund, the budgetary comparison for the debt service fund, and the schedule of expenditures of federal awards 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 June 29, 2023, 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
June 29, 2023

CITY OF SOCORRO, TEXAS
STATEMENT OF NET POSITION
September 30, 2022

<u>ASSETS</u>	Governmental Activities
Cash and cash equivalents	\$ 1,899,551
Restricted cash	18,013,405
Investments	8,113,480
Taxes receivable	3,459,874
Grants receivable	941,604
Other receivables, net	224,534
Prepaid expenses	56,242
Other assets	5,000
Beneficial interest in investments held in-trust	714,868
Non-depreciable capital assets	11,677,646
Depreciable capital assets, net of accumulated depreciation	<u>38,995,131</u>
Total assets	<u>84,101,335</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows of resources related to loss from retirement of bond	<u>178,359</u>
Total deferred inflows of resources	<u>178,359</u>
<u>LIABILITIES</u>	
Accounts payable	1,569,185
Accrued liabilities	329,913
Deferred revenue	11,781,769
Due within one year:	
Compensated absences	83,213
Bonds payable	1,617,000
Due in more than one year:	
Bonds payable, net	<u>32,336,523</u>
Total liabilities	<u>47,717,603</u>
<u>NET POSITION</u>	
Net position:	
Invested in capital assets, net of related debt	16,719,254
Restricted	10,556,050
Unrestricted	<u>9,286,787</u>
Total net position	<u>\$ 36,562,091</u>

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

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2022

<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:					
Public safety	\$ 5,668,743	\$	\$ 571,513	\$	\$ (5,097,230)
Infrastructure and environmental	4,772,420	1,678,210	1,298,001		(1,796,209)
General government	2,841,478	6,060	247,193		(2,588,225)
Community development	777,440		908,676		131,236
Health and human services	574,656				(574,656)
Interest on long-term debt	542,704				(542,704)
Justice system	387,877	552,949			165,072
Bond issuance costs	<u>171,551</u>	<u> </u>	<u> </u>	<u> </u>	<u>(171,551)</u>
Total governmental activities	<u>\$ 15,736,869</u>	<u>\$ 2,237,219</u>	<u>\$ 3,025,383</u>	<u>\$</u>	<u>(10,474,267)</u>
		General revenues:			
					11,039,073
					2,311,393
					913,995
					61,671
					<u>377,679</u>
			Total general revenues		<u>14,703,811</u>
			Change in net position		4,229,544
			Net position, beginning of year		<u>32,332,547</u>
			Net position, end of year		<u>\$ 36,562,091</u>

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

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2022

	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-ARPA</u>	<u>Special Revenue Fund-TRZ</u>	<u>Special Revenue Fund-TWDB</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Capital Improvements Fund - TWDB</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>										
Cash and cash equivalents	\$ 1,756,625	\$ 78,324	\$	\$	\$	\$	\$	\$	\$ 64,602	\$ 1,899,551
Restricted cash		4,668,555	423,420		3,433,281	344,105	2,378,692	6,573,887	191,465	18,013,405
Investments	4,514,128		3,525,837				73,515			8,113,480
Taxes receivable	2,914,072					545,802				3,459,874
Due from other funds	535,051		4,469,597	1,584			59,092			5,065,324
Grants receivable	17,590	283,991					640,023			941,604
Other receivables, net	224,534									224,534
Beneficial interest in investments held in trust									714,868	714,868
Prepaid expenses	22,146					16,469	17,627			56,242
Total assets	<u>\$ 9,984,146</u>	<u>\$ 5,030,870</u>	<u>\$ 8,418,854</u>	<u>\$ 1,584</u>	<u>\$ 3,433,281</u>	<u>\$ 906,376</u>	<u>\$ 3,168,949</u>	<u>\$ 6,573,887</u>	<u>\$ 970,935</u>	<u>\$ 38,488,882</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>										
Liabilities:										
Accounts payable	\$ 544,635	\$ 165,233	\$ 31,210	\$	\$	\$	\$ 822,307	\$	\$ 5,800	\$ 1,569,185
Accrued liabilities	269,096									269,096
Deferred revenue			8,348,488		3,433,281					11,781,769
Due to other funds	<u>303,994</u>	<u>4,514,277</u>	<u>39,156</u>			<u>15,975</u>	<u>457</u>		<u>191,465</u>	<u>5,065,324</u>
Total liabilities	<u>1,117,725</u>	<u>4,679,510</u>	<u>8,418,854</u>		<u>3,433,281</u>	<u>15,975</u>	<u>822,764</u>		<u>197,265</u>	<u>18,685,374</u>
Deferred inflows of resources:										
Deferred property taxes	1,370,947					346,941				1,717,888
Deferred court fees	<u>168,840</u>									<u>168,840</u>
Total deferred inflows of resources	<u>1,539,787</u>					<u>346,941</u>				<u>1,886,728</u>

(Continued)

CITY OF SOCORRO, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2022

<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES (CONTINUED)</u>	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-ARPA</u>	<u>Special Revenue Fund-TRZ</u>	<u>Special Revenue Fund-TWDB</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Capital Improvements Fund - TWDB</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
Fund balances:										
Nonspendable	\$ 22,146					\$ 16,469	\$ 17,627			\$ 56,242
Restricted for:										
Debt service						526,991				526,991
Capital projects							2,328,558	6,573,887	773,670	9,676,115
Federal and state mandated programs		351,360								351,360
Transportation Reinvestment Zone #1				1,584						1,584
Committed for:										
Capital improvements	485,204									485,204
Minimum fund balance	2,080,131									2,080,131
Unassigned	<u>4,739,153</u>									<u>4,739,153</u>
Total fund balances	<u>7,326,634</u>	<u>351,360</u>		<u>1,584</u>		<u>543,460</u>	<u>2,346,185</u>	<u>6,573,887</u>	<u>773,670</u>	<u>17,916,780</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,984,146</u>	<u>\$ 5,030,870</u>	<u>\$ 8,418,854</u>	<u>\$ 1,584</u>	<u>\$ 3,433,281</u>	<u>\$ 906,376</u>	<u>\$ 3,168,949</u>	<u>\$ 6,573,887</u>	<u>\$ 970,935</u>	<u>\$ 38,488,882</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, 2022

Total fund balances of governmental funds in the balance sheet		\$ 17,916,780
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	70,167,283	
Accumulated depreciation	<u>(19,494,506)</u>	50,672,777
Deposits on-hand are not considered current financial resources and not presented in the governmental funds		
		5,000
Deferred losses resulting from defeasance of bonds payable are not reported as a fund balance line item. All deferred gains or losses are presented in the statement of net position.		
		178,359
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	1,717,888	
Deferred court fees	<u>168,840</u>	1,886,728
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	(33,953,523)	
Compensated absences	(83,213)	
Accrued interest	<u>(60,817)</u>	<u>(34,097,553)</u>
Total net position of governmental activities		<u>\$ 36,562,091</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, 2022

	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-ARPA</u>	<u>Special Revenue Fund-TRZ</u>	<u>Special Revenue Fund-TWDB</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Capital Improvements Fund - TWDB</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
REVENUES										
Property taxes	\$ 8,717,361	\$	\$	\$ 38,132	\$	\$ 2,225,700	\$	\$	\$	\$ 10,981,193
Federal and state grants		623,579	183,808				1,294,721		65,141	2,167,249
Sales taxes	2,311,393									2,311,393
Planning and zoning fees	1,678,210									1,678,210
Franchise taxes	902,470	11,525								913,995
Municipal court fines and fees	509,206									509,206
Charges for services	6,060									6,060
Local grants	190	37,850						820,094		858,134
Investment income	34,476		25,837				957	401		61,671
Other income	<u>341,613</u>	<u>19,239</u>				<u>6,942</u>	<u>9,885</u>			<u>377,679</u>
Total revenues	<u>14,500,979</u>	<u>692,193</u>	<u>209,645</u>	<u>38,132</u>		<u>2,232,642</u>	<u>1,305,563</u>		<u>885,636</u>	<u>19,864,790</u>

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2022

	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-ARPA</u>	<u>Special Revenue Fund-TRZ</u>	<u>Special Revenue Fund-TWDB</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Capital Improvements Fund - TWDB</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>EXPENDITURES</u>										
Public safety	\$ 4,882,753	\$ 559,922	\$ 8,729	\$	\$	\$	\$	\$	\$	\$ 5,451,404
Infrastructure and environmental	3,358,004		23,700				1,088			3,382,792
General government	2,398,550	38,688	268,298						101,179	2,806,715
Community development	640,622	275								640,897
Health and human services	574,656									574,656
Justice system	387,877									387,877
Debt service:										
Principal						1,495,000				1,495,000
Interest						701,263				701,263
Bond issuance costs						78,810	2,628	90,113		171,551
Refinancing bond escrow						7,151,190				7,151,190
Capital outlay	<u>235,826</u>	<u>47,361</u>	<u>152,236</u>	<u>2,008,762</u>			<u>1,928,960</u>		<u>12,895</u>	<u>4,386,040</u>
Total expenditures	<u>12,478,288</u>	<u>646,246</u>	<u>452,963</u>	<u>2,008,762</u>		<u>9,426,263</u>	<u>1,932,676</u>	<u>90,113</u>	<u>114,074</u>	<u>27,149,385</u>

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2022

	<u>General Fund</u>	<u>Special Revenue Fund-Grants</u>	<u>Special Revenue Fund-ARPA</u>	<u>Special Revenue Fund-TRZ</u>	<u>Special Revenue Fund-TWDB</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Capital Improvements Fund - TWDB</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>OTHER FINANCING SOURCES (USES)</u>										
Proceeds from bond issuance	\$	\$	\$	\$	\$	\$7,230,000	\$	\$ 6,664,000	\$	\$ 13,894,000
Transfers in			243,318	1,972,214						2,215,532
Transfers out	<u>(2,215,532)</u>									<u>(2,215,532)</u>
Total other financing sources	<u>(2,215,532)</u>		<u>243,318</u>	<u>1,972,214</u>		<u>7,230,000</u>		<u>6,664,000</u>		<u>13,894,000</u>
Net change in fund balance	(192,841)	45,947		1,584		36,379	(627,113)	6,573,887	771,562	6,609,405
Fund balance, beginning of the year	<u>7,519,475</u>	<u>305,413</u>				<u>507,081</u>	<u>2,973,298</u>		<u>2,108</u>	<u>11,307,375</u>
Fund balance, end of the year	<u>\$7,326,634</u>	<u>\$351,360</u>	<u>\$</u>	<u>\$ 1,584</u>	<u>\$</u>	<u>\$ 543,460</u>	<u>\$2,346,185</u>	<u>\$ 6,573,887</u>	<u>\$ 773,670</u>	<u>\$ 17,916,780</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, 2022

Net change in fund balances – total governmental funds \$ 6,609,405

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	4,386,040	
Depreciation expense	<u>(1,772,285)</u>	2,613,755

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	57,880	
Change in unavailable revenue related to municipal court	<u>43,743</u>	101,623

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. (13,894,000)

Funds in the refunding bond escrow are not considered a current financial resource, therefore, they are not reported in the funds. 7,151,190

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. 139,777

The deferred gain or loss on defeasance of bonds is amortized using the straight-line method over the term of the refunding bond payable. Interest expense in the statement of activities is reduced by the net deferred gain amortization recognized every year. 8,995

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2022

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.			\$ 1,495,000
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		9,787	
Change in compensated absences payable		<u>(5,988)</u>	<u>3,799</u>
Change in net position of governmental activities			<u>\$ 4,229,544</u>

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

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

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 –

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 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 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 activity of City of Socorro Community Initiative is presented under the aggregate non-major funds in the financial statements of governmental activities for the year ended September 30, 2022.

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 eight major individual governmental funds and two aggregate non-major 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 in which they are levied.

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

In addition to assets and liabilities, the government fund balance sheet and the government-wide statement of net position may report separate sections of deferred outflows of resources and deferred inflows of resources. Accounting policies regarding deferred inflows and outflows of resources are explained on pages 23 and 37.

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

The City reports the following major governmental funds:

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

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

(Continued)

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued) –

Special Revenue Fund-ARPA – The Special Revenue Fund – ARPA is used to account for the expenditures of American Rescue Plan Act funding that have been restricted to be used for responding to the COVID-19 health emergency and other eligible uses established by the U.S. Department of Treasury. Grant revenue is recognized as expenditures are incurred, and any unused funds are presented as refundable grant advances in the Statement of Net Position.

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

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

Special Revenue Fund – Transportation Reinvestment Zone #2 – Established in 2021 and receives 100% of the City’s portion of the tax increment and a percentage of the tax increment that each taxing unit elects to dedicate to the Tax Reinvestment Zone (TRZ), which is then used to foster new development in the City.

Special Revenue Fund – Texas Water Development Board – Established in 2022 to account for and report financial resources that are held in-trust and have been restricted to be used for flooding control infrastructure projects that are funded by grant award revenues from the Texas Water Development Board. Grant revenue is recognized as expenditures are incurred, and any unused funds are presented as refundable grant advances in the Statement of Net Position.

Capital Projects Fund – Texas Water Development Board – Established in 2022 to account for and report financial resources that are held in-trust and have been restricted to be used for flooding control infrastructure projects that are funded by bond proceeds that have been loaned by the Texas Water Development Board. Grant revenue is recognized as expenditures are incurred, and any unused funds are presented as refundable grant advances in the Statement of Net Position.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (Continued) – 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.

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.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$1,325,856,950 for the year ended September 30, 2022. 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 2021-2022 tax rate was \$.803158, per \$100 of assessed valuation. The City incurred expenditures of \$137,637 and \$11,446 for the services provided by El Paso Central Appraisal District and City of El Paso Tax Collector, respectively, for the year ended September 30, 2022.

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.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables – 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 \$7,775,895 at September 30, 2022.

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.

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, 2022, 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 of more than 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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022.

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.

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, except for 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. The government-wide financial statements include deferred outflows of resources related to deferred losses from bond defeasances.

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, 2022, nonspendable fund balance consisted of prepaid expenses in the amount of \$56,242.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification Policies and Procedures (Continued) –

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, 2022, the restricted fund balance on the governmental funds was \$10,556,050, of which \$526,991 is restricted for debt service, \$9,676,115 is restricted for capital projects, \$351,360 is restricted for federal and state mandated programs, and \$1,584 is restricted for the Transportation Reinvestment Zone #2.

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, 2022 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 \$2,080,131 at September 30, 2022.

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, 2022.

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, 2022, the unassigned fund balance of the governmental funds was \$4,739,153.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022 is \$2,080,131, which is considered to be committed fund balance. At September 30, 2022, the City's unassigned fund balance amounted to \$4,739,153 which met the established percentage requirement.

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.

Fiduciary Activities – Effective October 1, 2020, the City adopted GASBS No. 84, "Fiduciary Activities." The standard establishes guidance regarding what constitutes fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported. Management has evaluated the criteria established by GASBS No. 84 and has not identified any activities or assets that would require to be reported as fiduciary activities as defined by GASBS No. 84.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash Deposits

Total deposits held by the City as of September 30, 2022 had a bank balance of \$20,287,157. The bank balance differs from the register cash balance of \$1,899,551 and restricted cash of \$18,013,405 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, 2022, pledged collateral funds securing the City’s deposits had a fair market value of \$10,504,664, in addition to the FDIC insurance coverage for up to \$250,000. The two restricted bank accounts held for Texas Water Development Board had a combined bank balance of \$10,007,168 and were collateralized in full by pledged securities held by the financial institution on behalf of the Texas Water Development Board. Altogether, collateral held on behalf of the Texas Water Development and the City of Socorro, Texas, as well as FDIC insurance coverage, exceeded the City’s bank balances totaling \$20,287,157.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (CONTINUED)

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.

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, 2022:

	<u>Cost</u>	<u>Fair Value/ Carrying Value</u>	<u>Measurement Method</u>
Maintenance and Operations	\$4,514,128	\$4,514,128	Amortized Cost
ARPA	3,525,837	3,525,837	Amortized Cost
Capital Projects	<u>73,515</u>	<u>73,515</u>	Amortized Cost
 Total LOGIC Investments	 <u>\$8,113,480</u>	 <u>\$8,113,480</u>	

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

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, 2022:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Property taxes:			
Property taxes, current	\$ 866,354	\$	\$ 866,354
Property taxes, delinquent	<u>1,810,218</u>	<u> </u>	<u>1,810,218</u>
	2,676,572		2,676,572
Sales taxes and franchise fees	<u>783,302</u>	<u> </u>	<u>783,302</u>
Taxes receivable	<u>\$3,459,874</u>	<u>\$ </u>	<u>\$3,459,874</u>
Other receivables:			
Court warrants	\$7,998,916	\$(7,775,895)	\$223,021
Other	<u>1,513</u>	<u> </u>	<u>1,513</u>
	<u>\$8,000,429</u>	<u>\$(7,775,895)</u>	<u>\$224,534</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, 2022:

Texas Department of Transportation	\$ 640,024
Texas Office of the Governor	189,031
U.S. Department of Justice	45,308
Emergence Health Network	33,240
U.S. Executive Office of the President	16,411
Other	<u>17,590</u>
Total	<u>\$941,604</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, 2022 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 15,975
General Fund	Capital Improvements Fund	457
General Fund	Special Revenue-CARES	191,465
General Fund	Special Revenue-ARPA	39,156
Special Revenue-ARPA	Special Revenue-Grants	4,226,279
Special Revenue-ARPA	General Fund	243,318
General Fund	Special Revenue-Grants	287,998
Capital Improvements Fund	General Fund	59,092
Special Revenue-TRZ	General Fund	<u>1,584</u>
	Total	<u>\$5,065,324</u>

The City’s General Fund transferred \$243,318 to the Special Revenue-ARPA Fund to cover expenditures that were not allocated to a specific program in the ARPA framework. A transfer of \$1,972,214 was made for restricted funds from the General Fund to the Special Revenue-TRZ Fund.

CAPITAL ASSETS

The following is a summary of capital assets and changes occurring for governmental activities during the year ended September 30, 2022:

	<u>Balance at September 30, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Reclassifications</u>	<u>Balance at September 30, 2022</u>
Non-depreciable capital assets:					
Land	\$3,025,379	\$ 11,753	\$	\$	\$3,037,132
Construction in progress	<u>5,170,411</u>	<u>4,128,976</u>	_____	<u>(658,873)</u>	<u>8,640,514</u>
Total non-depreciable capital assets	<u>8,195,790</u>	<u>4,140,729</u>	_____	<u>(658,873)</u>	<u>11,677,646</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS (CONTINUED)

	Balance at September 30, 2021	Additions	Disposals	Reclassifications	Balance at September 30, 2022
Depreciable capital assets:					
Infrastructure	\$48,371,436	\$48,029	\$	\$ 658,873	\$49,078,338
Machinery and equipment	2,468,584	50,975			2,519,559
Buildings	3,300,692	35,993			3,336,685
Vehicles	2,772,663	48,559			2,821,222
Furniture	346,358				346,358
Leasehold improvements	212,942				212,942
Software	<u>112,778</u>	<u>61,755</u>	<u> </u>	<u> </u>	<u>174,533</u>
	<u>57,585,453</u>	<u>245,311</u>	<u> </u>	<u>658,873</u>	<u>58,489,637</u>
Less accumulated depreciation for:					
Infrastructure	(12,369,872)	(1,167,583)			(13,537,455)
Machinery and equipment	(2,078,322)	(95,227)			(2,173,549)
Buildings	(1,070,034)	(157,803)			(1,227,837)
Vehicles	(1,650,020)	(322,577)			(1,972,597)
Furniture	(340,999)	(3,903)			(344,902)
Leasehold improvements	(124,681)	(5,016)			(129,697)
Software	<u>(88,293)</u>	<u>(20,176)</u>	<u> </u>	<u> </u>	<u>(108,469)</u>
Total accumulated depreciation	<u>(17,722,221)</u>	<u>(1,772,285)</u>	<u> </u>	<u> </u>	<u>(19,494,506)</u>
Depreciable capital assets, net	<u>39,863,232</u>	<u>(1,526,974)</u>	<u> </u>	<u>658,873</u>	<u>38,995,131</u>
Total capital assets, net	<u>\$48,059,022</u>	<u>\$2,613,755</u>	<u>\$ </u>	<u>\$ </u>	<u>\$50,672,777</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, 2022 as follows:

General government	\$ 28,775
Public safety	217,339
Community development	136,543
Infrastructure and environmental	<u>1,389,628</u>
Total depreciation expense	<u>\$1,772,285</u>

LAND EASEMENTS

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 expires December 31, 2042, and may be renewed for additional 25-year periods as considered necessary. The purpose of the easement is for the City to be able to perform construction projects and maintenance improvements on the various street crossings. The City is responsible for performing ongoing maintenance to each of the street crossings, as regularly needed, and shall allow the District to access any of the areas as requested. In consideration for the right of use, the agreement requires an administrative fee of \$6,500 and three payments of \$109,150, beginning in March 2018, due on each anniversary of the agreement. The second and third installments are to be adjusted for inflation based on changes in consumer price indexes. The City’s policy is to capitalize each of the payments made in connection with the land easement as non-depreciable capital assets unless a change in facts and circumstances indicates that the agreement will not be renewed after the initial 25-year period. As of September 30, 2022, all three payments have been made by the City and no balances remain outstanding. Carrying value of the fixed assets is \$297,246 as of September 30, 2022.

The City has evaluated its contract with El Paso County Water Improvement District No. 1, and has applied the guidance contained in GASB No. 87, *Leases*, in determining that its easement contract is a lease contract with a defined term. Because there were no remaining lease payments on October 1, 2021, the date of implementation of GASB 87, no retrospective adjustment to net position was considered necessary.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2022:

	<u>Balance at September 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2022</u>	<u>Due Within One Year</u>
Compensated absences	\$ 77,225	\$ 429,343	\$ (423,355)	\$ 83,213	\$ 83,213
Bonds payable, net (direct placements)	<u>28,591,988</u>	<u>13,894,000</u>	<u>(8,532,465)</u>	<u>33,953,523</u>	<u>1,617,000</u>
	<u>\$28,669,213</u>	<u>\$14,323,343</u>	<u>\$(8,955,820)</u>	<u>\$34,036,736</u>	<u>\$1,700,213</u>

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, 2022, employees had approximately 3,825 hours of accumulated paid-time-off.

Total accrued compensated absences	\$ <u>83,213</u>
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The City issued \$7,230,000 of General Obligation Refunding Bonds, Taxable Series 2022 to refund \$6,505,000 of outstanding principal of Tax and Revenue Obligation Series 2014 bonds. Interest rate is 2.08% over the term of the bonds. Varying interest and principal payments are due annually beginning March 2022 through September 2034. The effective yield is approximately 2.08%	7,020,000
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The City issued \$6,664,000 of Combination tax and Surplus Revenue Certificates Of Obligation, Series 2022 for the purpose of paying all or a portion of the City's contractual obligations incurred in connection with flood control projects. Interest rate is 0% over the term of the bonds. Varying principal payments are due semi-annually beginning March 2023 through March 2052. The entire bond issue was purchased by the Texas Water Development Board, as part of a state assistance program to develop flood control infrastructure.	6,664,000
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(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Bonds Payable (Direct Placements)

The City issued \$1,815,000 of General Obligation Refunding Bonds, Series 2020A to refund \$1,855,000 of outstanding principal of Tax and Revenue Obligation Series 2011 CK bonds. Interest rate is 4% to 4.25% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning March 2021 through March 2031. The effective yield rate is approximately 1.43%.	\$1,620,000
The City issued \$3,510,000 of General Obligations Refunding Bonds, Series 2016 to refund \$3,500,000 of outstanding 2008 Combination Tax and Revenue bonds. Interest rate varies from 2.00% to 4.00% over the term of the bonds. Varying principal and interest payments are due beginning September 2016 through March 2028. The principal payments are due annually and interest payments are due on a semi-annual basis. The original bond issue included an offering premium of \$356,559 to be amortized over the life of the bond. The effective yield rate is approximately 2.22%.	2,195,000
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%.	9,095,000
The City issued \$6,330,000 of General Obligation Refunding Bonds, Series 2020 to refund \$6,750,000 of outstanding principal of Series 2010 Certificates, Series 2012 Certificates, and Series 2012 Bonds. Interest rate is 3% to 4% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning March 2020 through March 2032. The original bond issue included an offering premium of \$659,601 to be amortized over the life of the bond. The effective yield rate is approximately 2.67%.	5,610,000

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Bonds Payable (Direct Placements) (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%.

	<u>\$ 630,000</u>
Total bonds payable outstanding	32,834,000
Unamortized bond premiums	<u>1,119,523</u>
Total bonds payable, net	<u>33,953,523</u>
Total long-term debt	<u>\$34,036,736</u>

Annual debt service for the outstanding bonds is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2023	\$ 1,617,000	\$ 708,280	\$ 2,325,280
2024	1,657,000	678,364	2,335,364
2025	1,702,000	644,057	2,346,057
2026	1,737,000	603,442	2,340,442
2027	1,787,000	559,758	2,346,758
2028-2032	9,685,000	2,062,506	11,747,506
2033-2037	8,685,000	867,457	9,552,457
2038-2042	3,740,000	79,500	3,819,500
2043-2047	1,110,000		1,110,000
2048-2052	<u>1,114,000</u>	<u> </u>	<u>1,114,000</u>
Totals	<u>\$32,834,000</u>	<u>\$6,203,364</u>	<u>\$39,037,364</u>

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

Amortization of bond premiums totaling \$139,777 is included in interest expense for the year ended September 30, 2022.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Bonds Payable (Continued)

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

Bond Defeasance

In December 2021, the City issued \$7,430,000 in General Obligations Refunding Bonds, Series 2022 to refund \$6,505,000 of outstanding principal of Series 2014 Certificates. The net refunding proceeds of \$7,151,190 (including an after payment of \$78,810 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, principal of \$6,505,000 of the Series 2014 Certificates, are considered to be defeased and has been removed from the total liability balance. Two remaining payments for a total of \$630,000 for those bonds are still outstanding and shown on the Statement of Net Position.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Bond Defeasance (Continued)

In November 2020, the City issued \$1,815,000 in General Obligations Refunding Bonds, Series 2020A to refund \$1,730,000 of outstanding principal of Series 2011 Certificates. The net refunding proceeds of \$1,765,013 (including an after payment of \$53,789 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the Series 2011 Certificates, are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position. The carrying balance of the defeased bonds amounted to \$1,759,365 which included \$29,365 of unamortized bond premiums.

Net deferred loss resulting from retirement of bonds amounted to \$178,359 at September 30, 2021.

DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Unavailable revenues in the amount of \$1,886,728 at September 30, 2022, 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 \$1,717,888 related to property taxes, and \$168,840 related to municipal court warrants.

Deferred losses resulting from defeasance of bonds payable are presented in the statement of net position in the government-wide financial statements as deferred outflows. Deferred loss from defeasance of bonds amounted to \$178,359 on September 30, 2022.

DEFERRED REVENUE

Deferred revenue was composed of the following at September 30, 2022:

Coronavirus State and Local Fiscal Recovery Funds (SLFRF), authorized by the American Rescue Plan Act (ARPA)	\$ 8,348,488
Flood infrastructure fund grant	<u>3,433,281</u>
Total deferred revenue	<u>\$11,781,769</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEFERRED REVENUE (CONTINUED)

During the year ended September 30, 2022 and 2021, the City received a total of \$8,532,535 in SLFRF funds. Only a part was spent before year-end, therefore a balance remains in deferred revenue. The Department of Treasury of the United States released a Final Rule stating funds are to be spent in four broad categories: public health and economic impacts, premium pay, general government revenue loss, and investments in water, sewer, and broadband. SLFRF funds may be used to cover eligible costs incurred during the period that begins on March 3, 2021 and ends December 31, 2024, as long as the award funds for the obligations incurred by December 31, 2024 are expensed by December 31, 2026. At September 30, 2022, total obligated SLFRF funds per the City's approved budget for the grant was \$2,074,240.

On September 7, 2022, the City received \$3,433,281 from the Texas Water Development Board to be used for flood control problems. No funds have been spent as of September 30, 2022.

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, 2022 totaled \$146,439, and the employees contributed \$161,480. Management of the City does not have the ability to direct invested funds in the Plan. Accordingly, the Plan falls outside of the scope of GASBS No. 84, as amended by GASBS No. 97.

SPLIT-INTEREST AGREEMENT

Beneficial Interest in The Paso Del Norte Community Foundation

In December 31, 2021, the City of Socorro Community Initiative ("COSCI") entered into a split-interest agreement with The Paso del Norte Community Foundation ("the Foundation"). The Foundation made a \$750,000 contribution for use over 36 months to support the Bracero rehabilitation, museum exhibition and interpretation, a research fellowship and the development and operation of the Rio Vista Farm tour. The City has variance power to manage the project with expenses approved by COSCI's Executive Director. Revenue of \$750,000 was recognized as grant income in the Statement of Activities, with the remaining balance of \$714,868 presented as restricted in the statement of Net Position.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SPLIT-INTEREST AGREEMENT (CONTINUED)

Beneficial Interest in The Paso Del Norte Community Foundation (Continued)

The City has applied the guidance contained in GASB 81, “Irrevocable Split Agreements”, to account for the Foundation’s contribution and has initially classified the carrying balance of the agreement as an investment. The investment is reported based on the carrying balance of the investment as presented by the Foundation.

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	\$9,676,115
Debt service	526,991
Federal and state mandated	351,360
Transportation Reinvestment Zone #2	<u>1,584</u>
Total	<u>\$10,556,050</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
Arterial (1-1682 Tigua P.E.)	<u>239,752</u>
Capital improvements	485,204
Minimum fund balance	<u>2,080,131</u>
Total	<u>\$2,565,335</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

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 2022, 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:

Automobile Liability	\$1,000,000
General Liability	\$1,000,000
Real and Personal Property	\$5,227,659
Flood and Earthquake	\$6,727,659
Boiler and Machinery (Per Accident)	\$100,000
Mobile Equipment	\$1,272,916
Crime Insurance:	
Public Employee Dishonesty (Per Occurrence)	\$500,000
Forgery or Alteration (Per Occurrence)	\$500,000
Theft Disappearance and Destruction (Per Occurrence)	\$500,000
Computer Fraud (Per Occurrence)	\$100,000

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

COMMITMENTS AND CONTINGENCIES

Texas Department of Transportation

The City entered into an agreement with the Texas Department of Transportation ("TXDOT") for the design of Arterial 1 in the City of Socorro. The City will coordinate the architectural and engineering services involving the project. The agreement originated in August 2020 and calls for a one-time payment of \$1,045 to begin the project. The agreement established a projected budget of \$4,832,941, out of which \$3,062,466 is the estimated federal match, \$654,670 is the estimated state match, and \$1,299,325 is the estimated local government's match. Total expenses incurred from the inception of the project through September 30, 2022, amounted to \$1,423,475.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (CONTINUED)

Texas Department of Transportation (Continued)

In June 2020, the City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the rehabilitation of the bridge located at Rio Vista Road at Franklin Canal. The City will be responsible for the adjustment, removal, or relocation of utility facilities, as deemed necessary. The agreement became effective on the date of execution and will remain in effect until completion of the project. The established projected budget amounts to \$1,535,615, out of which \$56,818 is the estimated local government’s match. Total expenses incurred from the inception of the project through September 30, 2022, amounted to \$155,533.

In June 2020, the City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the rehabilitation of the bridges located at Bovee Road at Franklin Canal. The City will be responsible for the adjustment, removal, or relocation of utility facilities, as deemed necessary. The agreement became effective on the date of execution and will remain in effect until completion of the project. The established projected budget amounts to \$1,491,316, out of which \$55,179 is the estimated local government’s match. Total expenses incurred from the inception of the project through September 30, 2022, amounted to \$108,279.

The City entered into an agreement with the Texas Department of Transportation (“TXDOT”) for the design and environmental assessment of Nuevo Hueco Tanks in the City of Socorro. The City will coordinate the architectural and engineering services involving the project. The agreement originated in August 2020 and calls for a one-time payment of \$3,251 to begin the project. The agreement established a projected budget of \$3,693,200, out of which \$2,828,000 is the estimated federal match, \$602,949 is the estimated state match, and \$262,251 is the estimated local government’s match. Total expenses incurred from the inception of the project through September 30, 2022, amounted to \$973,467.

Subsequent to year-end and through the date the financial statements were available to be issued, TXDOT reimbursed the City for construction costs amounting to \$2,660,755. As of September 30, 2022, the City has incurred additional construction costs related to the projects totaling \$135,216. These costs have not been submitted for reimbursement to TXDOT. Management expects the remaining expenses will be approved by TXDOT and income will be recognized when the reporting process is completed.

Camino Real Regional Mobility Authority

During the year ended September 30, 2021, the City restricted funds amounting to \$1,970,663 for the establishment of Transportation Reinvestment Zone Number 1 (“TRZ No.1”). In January 2022, the City entered into an agreement with Camino Real Regional Mobility Authority (“CRRMA”) to dissolve TRZ No.1 and create Transportation Reinvestment Zone Number 2 (TRZ No.2). Funds from TRZ No.1 were transferred to TRZ No.2 and pledged to CRRMA. Total expenses incurred from the inception of the project through September 30, 2022, amounted to \$2,008,762. Remaining funds are shown as restricted in the statement of net position.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

Litigation

The City is party to various legal proceedings, which normally occur in governmental operations. Management considers these legal proceedings are not likely to have a material adverse impact on the affected funds of the City and, therefore, no liability was accrued at September 30, 2022.

Construction Contracts

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

Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”)

In July 2020, the City entered an interlocal subrecipient grant agreement with the County of El Paso where the City was awarded funds appropriated under the CARES Act. The purpose of this grant is to provide funds to mitigate the financial burden caused by the COVID-19 pandemic by allowing the City to incur expenses for governmental functions and services which qualify under the CARES Act as compensable expenses by the United States Department of the Treasury. The agreement stipulates that a minimum of 75% of its allotment will be spent in the categories of medical expenses, public health expenses and payroll expenses for employees substantially dedicated to mitigating or responding to public emergency. The total allotment to the City amounted to \$1,890,350. Of this amount, \$378,070 was distributed in March 2020 and the remaining \$1,512,280 is to be disbursed on a reimbursable basis. As of September 30, 2022, the City expended \$65,141 of CARES funds.

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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (CONTINUED)

Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) (Continued)

In November 2020, the City entered into an agreement with LiftFund Inc. (the “Subrecipient”), with the purpose of supporting small businesses located in the City of Socorro. The program will dedicate \$350,000 to small business recovery grants, which will amount up to \$20,000 per business. The Subrecipient will be paid an administrative fee of 8% in connection with the scope of the program, which began on December 3, 2020, and ended on December 31, 2021.

In March 2021, the City was awarded funds through the U.S. Department of the Treasury under the American Rescue Plan Act. The purpose of the award is to support the City’s response to and recovery from the COVID-19 public health emergency. The term of agreement began on March 3, 2021 and is effective until December 31, 2024. The City received disbursements amounting to \$8,533,234, of which \$184,746 was spent and the remaining portion was recognized as deferred revenue at September 30, 2022.

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, 2022, approximately 55% and 12% of the City’s total revenues were from property taxes and sales taxes, respectively.

NEW ACCOUNTING PRONOUNCEMENTS

For 2022, the City implemented GASB Statement No. 87, “Leases.” GASB No. 87 enhances the relevance and consistency of information of the government’s leasing activities. It establishes the requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. These changes were incorporated in the City’s 2022 financial statements, but did not have an effect on the beginning net position.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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. These changes were incorporated in the City’s 2022 financial statements but did not have an effect on the beginning net position.

SUBSEQUENT EVENTS

On November 17, 2022, the City passed-through \$250,000 to El Paso Collaborative for Community and Economic Development under the American Rescue Plan Act (ARPA) subgrant.

Subsequent events were evaluated through June 29, 2023 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, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$ 7,925,357	\$ 7,925,357	\$ 8,717,361	\$ 792,004
Sales taxes	1,753,500	1,753,500	2,311,393	557,893
Municipal court fines and fees	504,000	504,000	509,206	5,206
Franchise taxes	675,000	675,000	902,470	227,470
Planning and zoning fees	742,500	742,500	1,678,210	935,710
Charges for services	54,500	54,500	6,060	(48,440)
Local grants			190	190
Investment income	1,700	1,700	34,476	32,776
Other income	<u>18,100</u>	<u>18,100</u>	<u>341,613</u>	<u>323,513</u>
 Total revenues	 <u>11,674,657</u>	 <u>11,674,657</u>	 <u>14,500,979</u>	 <u>2,826,322</u>
Expenditures/outflows:				
Public safety	5,590,891	5,441,711	4,882,753	558,958
Infrastructure and environmental	3,532,133	3,529,333	3,358,004	171,329
General government	2,565,646	2,488,009	2,398,550	89,459
Community development	533,707	657,007	640,622	16,385
Health and human services	759,000	823,947	574,656	249,291
Justice system	405,717	438,847	387,877	50,970
Capital outlay			<u>235,826</u>	<u>(235,826)</u>
 Total expenditures	 <u>13,387,094</u>	 <u>13,378,854</u>	 <u>12,478,288</u>	 <u>900,566</u>

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Excess (deficiency) of revenues over (under) expenditures	\$(1,712,437)	\$(1,704,197)	\$ 2,022,691	\$ 3,726,888
Fund balance, beginning of year	<u>7,519,475</u>	<u>7,519,475</u>	<u>7,519,475</u>	<u> </u>
Fund balance, end of year	<u>\$ 5,807,038</u>	<u>\$ 5,815,278</u>	<u>\$ 9,542,166</u>	<u>\$ 3,726,888</u>
Budget basis excess			\$ 2,022,691	
Transfers out			<u>(2,215,532)</u>	
GAAP basis excess			(192,841)	
Fund balance, beginning of year			<u>7,519,475</u>	
Fund balance, end of year			<u>\$ 7,326,634</u>	

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Local grants	\$	\$	\$ 37,850	\$ 37,850
Federal and state grants	584,907	584,907	623,579	38,672
Franchise taxes			11,525	11,525
Other income	_____	_____	<u>19,239</u>	<u>19,239</u>
Total revenues	<u>584,907</u>	<u>584,907</u>	<u>692,193</u>	<u>107,286</u>
Expenditures/outflows:				
Public safety	584,907	584,907	559,922	24,985
General government			38,688	(38,688)
Community development			275	(275)
Capital outlay	_____	_____	<u>47,361</u>	<u>(47,361)</u>
Total expenditures	<u>584,907</u>	<u>584,907</u>	<u>646,246</u>	<u>(61,339)</u>
Revenues over expenditures			45,947	45,947
Fund balance, beginning of year	<u>305,413</u>	<u>305,413</u>	<u>305,413</u>	_____
Fund balance, end of year	<u>\$305,413</u>	<u>\$305,413</u>	<u>\$351,360</u>	<u>\$ 45,947</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 - TRZ**

Year Ended September 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$ 400,000	\$ 400,000	\$ 38,132	\$ (361,868)
Total revenues	<u>400,000</u>	<u>400,000</u>	<u>38,132</u>	<u>(361,868)</u>
Expenditures/outflows:				
Capital outlay	<u>400,000</u>	<u>400,000</u>	<u>2,008,762</u>	<u>1,608,762</u>
Total expenditures	<u>400,000</u>	<u>400,000</u>	<u>2,008,762</u>	<u>1,608,762</u>
Excess of expenditures over revenues			(1,970,630)	(1,970,630)
Fund balance, beginning of year	_____	_____	_____	_____
Fund balance, end of year	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ (1,970,630)</u>	<u>\$ (1,970,630)</u>
Budget basis excess			\$ (1,970,630)	
Transfers in			<u>1,972,214</u>	
GAAP basis excess			1,584	
Fund balance, beginning of year			_____	
Fund balance, end of year			<u>\$ 1,584</u>	

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Estimated Resources – The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified by resolution of the City Council. The official estimated resources state 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 2022.

(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:

General Fund:	
Capital outlay	<u>\$235,826</u>
Special Revenue Fund – Grants:	
General government	\$ 38,688
Community development	275
Capital outlay	<u>47,361</u>
	<u>\$ 86,324</u>

(Continued)

CITY OF SOCORRO, TEXAS

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

BUDGET OVER-EXPENDITURES (CONTINUED)

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

Special Revenue Fund – ARPA	
Public safety	\$ 8,729
Infrastructure	23,700
General government	268,298
Capital outlay	<u>152,236</u>
	<u>\$452,963</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 in the general fund were due to a difference in classification from budgetary basis, in which capital outlay is budgeted for the different departments, and financial statements presentation in which capital outlay is presented separately.

The primary over-expenditures in the Special Revenue Fund-Grants were related to overtime and capital outlay. Capital outlay for Special Revenue Fund-TRZ was budgeted under Special Revenue Fund-Grants but presented as a separate fund in the financial statements.

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, 2022

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues/inflows:				
Federal and state grants	\$	\$	\$1,294,721	\$ 1,294,721
Investment income			957	957
Other income			9,885	9,885
Total revenues			1,305,563	1,305,563
Expenditures/outflows:				
Infrastructure and environmental			1,088	(1,088)
Debt issuance costs			2,628	(2,628)
Capital outlay	6,300,000	6,300,000	1,928,960	4,371,040
Total expenditures	6,300,000	6,300,000	1,932,676	4,367,324
Deficiency of revenues over expenditures	(6,300,000)	(6,300,000)	(627,113)	5,672,887
Fund balance, beginning of the year	2,973,298	2,973,298	2,973,298	
Fund balance, end of year	<u>\$ (3,326,702)</u>	<u>\$ (3,326,702)</u>	<u>\$ 2,346,185</u>	<u>\$ 5,672,887</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, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$2,097,399	\$2,097,399	\$ 2,225,700	\$ 128,301
Proceeds from bond issuance			7,230,000	7,230,000
Other income	_____	_____	<u>6,942</u>	<u>6,942</u>
Total revenues	<u>2,097,399</u>	<u>2,097,399</u>	<u>9,462,642</u>	<u>7,365,243</u>
Expenditures/outflows:				
Principal	1,190,000	1,190,000	1,495,000	(305,000)
Interest	907,399	907,399	701,263	206,136
Refinancing bond escrow			7,151,190	(7,151,190)
Bond issuance costs	_____	_____	<u>78,810</u>	<u>(78,810)</u>
Total expenditures	<u>2,097,399</u>	<u>2,097,399</u>	<u>9,426,263</u>	<u>(7,328,864)</u>
Excess of revenues over expenditures			36,379	36,379
Fund balance, beginning of the year	<u>507,081</u>	<u>507,081</u>	<u>507,081</u>	_____
Fund balance, end of year	<u>\$ 507,081</u>	<u>\$ 507,081</u>	<u>\$ 543,460</u>	<u>\$ 36,379</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 Ivy Avalos
and Council Members of City of Socorro, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Socorro, Texas as of and for the year ended September 30, 2022, 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 June 29, 2023.

Report on 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.

(Continued)

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

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
June 29, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Socorro, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Socorro, Texas' major federal programs for the year ended September 30, 2022. City of Socorro, Texas' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, City of Socorro, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

(Continued)

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

Report on Compliance for Each Major Federal Program (Continued)

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

(Continued)

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

Report on Internal Control over Compliance (Continued)

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

SBNG, PC

El Paso, Texas
June 29, 2023

**CITY OF SOCORRO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended September 30, 2022

Program Title	Assistance Listing Number	Agency or Pass- Through Number	Contract Period	Award Amount	Amount Expended
FEDERAL EXPENDITURES					
U.S. Department of Transportation					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Construction Cluster:					
Highway Planning and Construction - City of Socorro Arterial 1	20.205	0924-06-563	8/17/2020-completion	\$ 3,062,466	\$ 595,231
Highway Planning and Construction - Rio Vista at Franklin Canal	20.205	0924-06-423	8/17/2020-completion	\$ 355,394	40,298
Highway Planning and Construction - Bovee at Franklin Canal	20.205	0924-06-424	8/17/2020-completion	\$ 343,394	50,302
Highway Planning and Construction - Nuevo Hueco Tanks Road Extension	20.205	0924-06-607	9/1/2020-completion	\$ 2,828,000	<u>432,719</u>
Total 20.205					<u>1,118,550</u>
Total Highway Planning and Reconstruction Cluster					<u>1,118,550</u>
Total U.S. Department of Transportation					<u>1,118,550</u>
U.S. Department of the Treasury					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	TX4179	03/31/2021 - 12/31/2024	\$ 8,533,234	<u>183,808</u>
Total 21.027					<u>183,808</u>

(Continued)

**CITY OF SOCORRO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)**

Year Ended September 30, 2022

Program Title	Assistance Listing Number	Agency or Pass- Through Number	Contract Period	Award Amount	Amount Expended
FEDERAL EXPENDITURES (CONTINUED)					
U.S. Department of the Treasury (Continued)					
<i>Passed through County of El Paso</i>					
COVID-19 - Coronavirus Relief Fund	21.019	2020-0530	12/3/2020 - 12/31/2021	\$ 1,890,350	\$ <u>65,141</u>
Total 21.019					<u>65,141</u>
Total U.S. Department of the Treasury					<u>248,949</u>
U.S. Department of Homeland Security					
<i>Passed through Texas Office of the Governor - Homeland Security Grants Division</i>					
ST/CP - Socorro PD SHSP-LEPTA Regional Tactical Team	97.067	4302401	09/01/2021 - 08/31/2022	\$ 166,783	125,394
El Paso 2020 OPSG	97.067	3007206	03/01/2021 - 02/28/2022	\$ 61,656	33,730
El Paso 2021 OPSG	97.067	3007207	03/01/2022 - 02/28/2023	\$ 71,863	15,947
Socorro PD SHSP-LEPTA Regional Tactical Team	97.067	3999101	09/01/2020 - 08/31/2021	\$ 60,477	<u>2,502</u>
Total 97.067					<u>177,573</u>
Total U.S. Department of Homeland Security					<u>177,573</u>

(Continued)

**CITY OF SOCORRO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)**

Year Ended September 30, 2022

Program Title	Assistance Listing Number	Agency or Pass- Through Number	Contract Period	Award Amount	Amount Expended
FEDERAL EXPENDITURES (CONTINUED)					
U.S. Department of Justice					
COPS Office COPS Hiring Program	16.710	2020UMWX0203	07/01/2020 - 06/30/2023	\$ 742,237	\$ 207,448
2021 Community Policing Development (CDP) - Crisis Intervention Teams Solicitation	16.710	15JCOPS-21-GG-02315SPPS	09/01/2021 - 08/31/2023	\$ 204,000	<u>35,950</u>
Total 16.710					<u>243,398</u>
Total U.S. Department of Justice					<u>243,398</u>
U.S. Executive Office of the President					
High Intensity Drug Trafficking Areas (HIDTA)	95.001	G21SW0018A	01/01/2021 - 12/31/2022	\$ 82,044	64,039
High Intensity Drug Trafficking Areas (HIDTA)	95.001	G22SW0018A	01/01/2022 - 12/31/2023	\$ 61,533	<u> </u>
Total 95.001					<u>64,039</u>
Total U.S. Department of Justice					<u>64,039</u>

(Continued)

**CITY OF SOCORRO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)**

Year Ended September 30, 2022

Program Title	Assistance Listing Number	Agency or Pass- Through Number	Contract Period	Award Amount	Amount Expended
FEDERAL EXPENDITURES (Continued)					
U.S. Department of Housing and Urban Development					
<i>Passed through Texas Department of Agriculture</i>					
CDBG Entitlement Grants Cluster:					
Texas Community Development					
Block Grant Program	14.218	7218460	11/1/2018-6/30/2021	\$ 275,000	<u>\$ 3,280</u>
Total 14.218					<u>3,280</u>
Total CDBG Entitlement Grants Cluster					<u>3,280</u>
Total U.S. Department of Housing and Urban Development					<u>3,280</u>
U.S. Department of Interior					
<i>Passed through National Park Service, Historic Preservation Grants Division</i>					
NPS Underrepresented Communities Grant Program	15.904	P17AP00016	03/01/2017 - 03/31/2019	\$ 19,800	<u>19,800</u>
Total 15.904					<u>19,800</u>
Total U.S. Department of Interior					<u>19,800</u>
Total Federal Expenditures					<u>\$ 1,875,589</u>

See notes to schedule of expenditures of federal awards and independent auditors' report.

CITY OF SOCORRO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2022

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of City of Socorro, Texas is presented to assist in understanding City of Socorro, Texas' Schedule of Expenditures of Federal Awards. The Schedule and notes are representations of City of Socorro, Texas' management, who is responsible for their integrity and objectivity.

Basis of Accounting and Presentation – The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting. The information in this schedule is presented in accordance with the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Indirect Costs – City of Socorro, Texas does not currently have a negotiated indirect cost reimbursement rate approved by a Federal Cognizant Agency; therefore, the City has elected to use the de minimis rate of 10% of modified total direct costs as an indirect cost allocation factor, as allowed under 2CFR §200.414.

Subrecipients – There were no sub-recipients of the Federal Awards received by the City of Socorro for the year ended September 30, 2022.

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2022

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Socorro, Texas.
2. No significant deficiencies or material weaknesses were reported in the audit of the financial statements of City of Socorro, Texas in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance material to the financial statements of City of Socorro, Texas, disclosed during the audit which would be required to be reported in accordance with *Government Auditing Standards*.
4. No significant deficiencies in internal control over major federal award programs were reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance.
5. The auditors' report on compliance for the major federal programs for City of Socorro, Texas expresses an unmodified opinion on Highway Planning and Construction Cluster, ALN 20.205.
6. There are no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The program tested as a major federal program was the Highway Planning and Construction Cluster, ALN 20.205.
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000 for federal purposes.
9. City of Socorro, Texas did not qualify as a low-risk auditee.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2022

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

None noted.

**III. AUDIT FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

None noted.

See independent auditors’ report.

CITY OF SOCORRO, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2022

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

Finding 2021-001:

**Lack of adequate documentation to support program expenses
Highway Planning and Construction
Allowable Costs/Cost Principles**

20.205

Prior Year Response: Our perspective is that despite our initial efforts to provide adequate oversight over the review and processing of invoices submitted to TXDOT for this project, it became apparent that the Engineering firm was struggling to provide us with the correct and sufficient information in order to properly compile and submit information to TXDOT in a timely and effective manner, and in compliance with the adequate support documentation requirements. Several discussions with the firm ensued; however, progress was nominal. In late April of 2021, the City Planner who was spearheading this project for the city resigned and left a void of information and familiarity with the project. Unfortunately, the Engineering firm was also left with a situation where their project manager on this project was no longer at the firm and left a void there as well. We are currently rallying with different personnel on both our reviews and the Engineering firms’ submittals and are making progress in a more acceptable way.

Current Status: This item has been corrected.

See independent auditors’ report.