

City of Socorro, Texas

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017



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RIGGS &
INGRAM

CPAs and Advisors

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City of Socorro, Texas
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September 30, 2017

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**City of Socorro, Texas
Official Roster
September 30, 2017**

<u>Name</u>		<u>Title</u>
Elia Garcia		Mayor
	<u>City Council</u>	
Rene Rodriguez		At Large Representative
Cesar Nevarez		District 1 Representative
Ralph Duran		District 2 Representative
Victor Perez		Mayor Pro Tem/District 3 Representative
Yvonne Colon-Villalobos		District 4 Representative
	<u>City Administration</u>	
Adriana Rodarte		City Manager
Charles Casiano, CPA		Finance Director
Olivia Navarro		City Clerk

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Socorro
Socorro, Texas

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Socorro, Texas (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Socorro, Texas, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Accounting principles generally accepted in the United States of America require that Budgetary Comparison for the General Fund and the major Special Revenue Fund on pages 40 to 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and the Budgetary Comparison for the Debt Service Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and the Budgetary Comparison for the Debt Service Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Albuquerque, NM
May 1, 2018

City of Socorro, Texas
Statement of Net Position
September 30, 2017

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 4,773,132
Investments	237,687
Receivables:	
Property taxes	1,432,710
Other taxes	478,970
Due from other governments	73,700
Other receivables, net	123,444
Inventory	5,728
Prepaid expenses	6,089
Total current assets	7,131,460
Noncurrent assets	
Restricted cash and cash equivalents	378,265
Other assets	5,485
Unspent bond proceeds	4,052,024
Bond underwriter discount (net of accumulated amortization of \$46,830)	142,243
Capital assets, net of accumulated depreciation	21,995,233
Total noncurrent assets	26,573,250
Total assets	33,704,710
Deferred outflows of resources	
Deferred loss on extinguishment of debt (net of accumulated amortization of \$28,194)	303,084
Total deferred outflows of resources	303,084
Total assets and deferred outflows of resources	\$ 34,007,794

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

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 784,389
Accrued payroll	115,798
Accrued expenses	9,977
Accrued interest	77,119
Accrued compensated absences	60,557
Current portion of bonds payable	955,000
Total current liabilities	2,002,840
Noncurrent Liabilities	
Bonds payable	21,190,000
Bond premium (net of accumulated amortization of \$278,295)	1,165,999
Total noncurrent liabilities	22,355,999
Total liabilities	24,358,839
Net position	
Net investment in capital assets	3,181,585
Restricted for:	
Debt service	1,200,752
Special revenue	239,923
Unrestricted	5,026,695
Total net position	9,648,955
Total liabilities and net position	\$ 34,007,794

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

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City of Socorro, Texas
Statement of Activities
For the Year Ended September 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
General government	\$ 1,805,626	\$ 1,025	149,171	\$ -	\$ (1,655,430)
Infrastructure and environmental	2,931,121	467,040	133,619	-	(2,330,462)
Public safety	3,162,433	14,474	137,625	-	(3,010,334)
Justice system	271,981	356,644	-	-	84,663
Health and human services	671,954	-	5,556	-	(666,398)
Community and economic development	446,328	2,787	-	-	(443,541)
Interest and fiscal charges on debt	793,905	-	-	-	(793,905)
Total governmental activities	\$ 10,083,348	\$ 841,970	\$ 425,971	\$ -	(8,815,407)

General Revenues and Special Item:

Taxes:

Property taxes, levied for general purpose	5,168,967
Property taxes, levied for debt service	1,816,972
Sales taxes	1,493,924
Franchise taxes, for general purpose	613,218
Franchise taxes, for public, educational and government purpose	10,066
Other taxes	-
Investment income	3,988
Miscellaneous revenue	82,621
Special item - insurance recovery	96,086

Total general revenues and transfers **9,285,842**

Change in net position 470,435

Net position - beginning **9,178,520**

Net position - ending **\$ 9,648,955**

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

City of Socorro, Texas
Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund
Assets			
Cash and cash equivalents	\$ 4,701,250	\$ 71,882	\$ -
Restricted cash and cash equivalents	-	175,082	4,143,533
Investments	237,687	-	-
Receivables:			
Property taxes	1,058,297	-	-
Other taxes	478,970	-	-
Due from other governments	-	73,700	-
Other receivables, net	123,444	-	-
Inventory	5,728	-	-
Prepaid expenses	6,089	-	-
Other assets	485	-	-
Due from other funds	305,997	101,368	23,175
Total assets	\$ 6,917,947	\$ 422,032	\$ 4,166,708
Liabilities, deferred inflows of resources, and fund balances			
Liabilities			
Accounts payable	\$ 679,056	\$ 13,824	\$ 91,509
Accrued payroll	115,798	-	-
Accrued expenses	9,977	-	-
Due to other funds	181,149	233,539	457
Total liabilities	985,980	247,363	91,966
Deferred inflows of resources			
Unavailable revenue - property tax	700,373	-	-
Unavailable revenue - municipal court warrants	103,697	-	-
Total deferred inflows of resources	804,070	-	-
Fund balances			
Nonspendable:			
Inventory	5,728	-	-
Prepaid expenses	6,089	-	-
Spendable:			
Restricted for:			
Special revenue projects-grants	-	174,669	-
Capital projects	-	-	4,074,742
Debt service	-	-	-
Committed to:			
Minimum fund balance	1,336,972	-	-
Unassigned	3,779,108	-	-
Total fund balances	5,127,897	174,669	4,074,742
Total liabilities, deferred inflows of resources, and fund balances	\$ 6,917,947	\$ 422,032	\$ 4,166,708

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

<u>Debt Service Fund</u>	<u>Total</u>
\$ -	\$ 4,773,132
111,674	4,430,289
-	237,687
374,413	1,432,710
-	478,970
-	73,700
-	123,444
-	5,728
-	6,089
-	485
-	430,540
<u>\$ 486,087</u>	<u>\$ 11,992,774</u>

\$ -	\$ 784,389
-	115,798
-	9,977
15,395	430,540
<u>15,395</u>	<u>1,340,704</u>

249,638	950,011
-	103,697
<u>249,638</u>	<u>1,053,708</u>

-	5,728
-	6,089

-	174,669
-	4,074,742
221,054	221,054
-	1,336,972
-	3,779,108
<u>221,054</u>	<u>9,598,362</u>

<u>\$ 486,087</u>	<u>\$ 11,992,774</u>
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The accompanying notes are an integral part of these financial statements.

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City of Socorro, Texas
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2017

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balances - total governmental funds	\$ 9,598,362
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds	21,995,233
Deposit on land purchase	5,000
Items not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities:	
Delinquent property taxes	950,011
Municipal courts warrants	103,697
Deferred outflows of resources are applicable to future periods and, therefore, not reported in the funds:	
Deferred loss on extinguishment of debt	303,084
Certain liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest payable	(77,119)
Accrued compensated absences	(60,557)
Bond underwriter discount, net	142,243
Bond premium, net	(1,165,999)
Bonds payable	(22,145,000)
Net position - governmental activities	\$ 9,648,955

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

City of Socorro, Texas
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund
Revenues			
Taxes:			
Property	\$ 5,130,093	\$ -	\$ -
Sales	1,493,924	-	-
Franchise	613,218	10,066	-
Other	-	-	-
Planning and zoning fees	476,320	-	-
Charges for services	7,861	-	-
Municipal court fines and fees	432,578	-	-
Intergovernmental:			
Federal operating grants	-	288,970	-
Federal capital grants	-	-	-
State operating grants	-	176,130	-
Investment income (loss)	1,757	-	2,231
Miscellaneous	16,853	65,768	-
Total revenue	8,172,604	540,934	2,231
Expenditures			
Current:			
General government	1,399,713	318,116	-
Infrastructure and environmental	2,270,854	-	21,226
Public safety	2,977,120	102,071	-
Justice system	258,647	3,204	-
Health and human services	671,954	-	-
Community and economic development	388,748	-	-
Capital outlay	53,192	114,895	1,396,345
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	8,020,228	538,286	1,417,571
Excess (deficiency) of revenues over expenditures	152,376	2,648	(1,415,340)
Other financing sources (uses)			
Insurance recovery	96,086	-	-
Transfers in (out)	-	315	(315)
Total other financing sources (uses)	96,086	315	(315)
Net change in fund balances	248,462	2,963	(1,415,655)
Fund balance - beginning of year	4,879,435	171,706	5,490,397
Fund balances - end of year	\$ 5,127,897	\$ 174,669	\$ 4,074,742

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

<u>Debt Service Fund</u>	<u>Total</u>
\$ 1,809,264	\$ 6,939,357
-	1,493,924
-	623,284
-	-
-	476,320
-	7,861
-	432,578
-	288,970
-	-
-	176,130
-	3,988
-	82,621
1,809,264	10,525,033
-	1,717,829
-	2,292,080
-	3,079,191
-	261,851
-	671,954
-	388,748
-	1,564,432
925,000	925,000
840,895	840,895
1,765,895	11,741,980
43,369	(1,216,947)
-	96,086
-	-
-	96,086
43,369	(1,120,861)
177,685	10,719,223
\$ 221,054	\$ 9,598,362

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

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City of Socorro, Texas

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2017**

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ (1,120,861)
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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 expenditures	1,564,432
Depreciation expense	(861,921)

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	46,582
Change in unavailable revenue related to municipal court	(74,789)
Change in unavailable revenue related to grants	(39,129)

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Current year amortization of bond premium	85,933
Current year amortization of bond underwriter discount	(10,749)
Current year amortization of loss on extinguishment of debt	(28,195)
Increase in accrued compensated absences	(15,868)
Principal payments on bonds	925,000

Change in net position of governmental activities	\$ 470,435
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The accompanying notes are an integral part of these financial statements.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 units.

During the year ended September 30, 2017, the City adopted GASB Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (partial), No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, No. 77, Tax Abatement Disclosures, No. 78 Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, and No. 80, Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14 and No. 82, Pension Issues-an amendment of GASB Statements No. 67, NO. 68, and No. 73. These six Statements are required to be implemented as of September 30, 2017, if applicable.

GASB Statement No. 73 establishes accounting and financial reporting standards for defined benefit pensions and defined contribution pensions that are not provided to employees of state and local government employers and are not within the scope of Statement 68. A portion of this pronouncement was effective and was implemented for the June 30, 2016 year end, and a portion is effective for June 30, 2017 year end. Effective for September 30, 2017 are the provisions of the statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. This does not have a material effect on the financial statements of the City.

The objective of GASB Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement does not affect the City's financial statements directly.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 77 is intended to improve the usefulness of financial statements prepared by state and local governments – which are intended, among other things, to assist users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources came from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed after time – by including information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens – such as the encouragement of economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future. Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government’s tax revenues.

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

For tax abatement agreements entered into by other governments, the following should be disclosed:

- The names of the governments that entered into the agreements;
- The specific taxes being abated; and
- The gross dollar amount of taxes abated during the period.

The City was not affected by any tax abatements. Implementation of this standard is September 30, 2017.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers. The City's retirement plan does not meet the criteria for exclusion.

The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

GASB Statement No. 82 clarified and adjusted several items from GASB Statement Nos. 67 and 68, including the definition of covered payroll, the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.

Financial 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 and No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Entity (continued)

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City does not have any component units required to be reported under GASB Statements No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61 and No. 80.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. There are no business-type activities conducted by the City.

In the government-wide Statement of Net Position, the governmental activities column (a) is presented on a consolidated basis by column, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt obligations. The City's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement and contingencies imposed by the provider are met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and the susceptible to accrual criteria have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Program revenues included in the Statement of Activities are derived directly from the program itself or from parties outside the City's taxpayer or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the City's general revenues. Program revenues are categorized as (a) charges for services, which include revenues collected for fees and use of City facilities, etc., (b) program-specific operating grants, which includes revenues received from state and federal sources to be used as specified within each program grant agreement, and (c) program-specific capital grants and contributions, which include revenues from state sources to be used for capital projects (of which there are none). Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. The City does not currently employ indirect cost allocation systems. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Under the requirements of GASB Statement No. 34, the City is required to present certain governmental funds as major based upon certain criteria. The major funds presented in the fund financial statements include the following:

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.

The *Special Revenue Fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Contract revenue is recognized when compliance with the various contract requirements is achieved. Usually this occurs at the time expenditures are made and the contract matching requirements are met. Contract revenues received before the revenue recognition has been met are reported as unearned revenue, liability account. When the revenue recognition has been met, contract revenue not yet received is reported as accounts receivable.

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 for assets that will be held in trust for individuals, private organizations, or other governments.

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. The Debt Service Fund is used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in the future years are also reported in the debt service fund.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Deposits and Investments: The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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.

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

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (continued)

The City is required by Governmental Code Chapter 2256, Public Funds Investment Act (PFIA), to adopt, implement, and publicize an investment policy. That policy must address safety of principal and liquidity, portfolio diversification, allowable investments, acceptable risk levels, expected rates of return, maximum allowable stated maturity of portfolio investments, maximum average dollar weighted maturity allowed based on the stated maturity date for the portfolio, investment staff quality and capabilities, and bid solicitation preferences for Certificate of Deposit. The City has not adopted an investment policy.

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.

Property taxes are levied on October 1st in conformity with Subtitle E, Texas Property Code. Property taxes uncollected after February 1st are considered delinquent. The taxes attach as an enforceable lien on property as of July 1st of the next year to secure the payment of all taxes, penalties, and interest ultimately imposed. The El Paso Central Appraisal City assesses and collects property taxes for the City. The City is permitted by the Municipal Finance Law of the State to levy taxes up to \$1.20 per \$100 of appraised valuation for general services, permanent improvements, lateral road, and jury fund purposes other than the payment of principal established by the Attorney General of the State of Texas.

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 actually 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.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

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 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Impairment of assets takes place when the fair value of the long-term asset is below 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, 2017.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
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

Deferred Outflows of Resources: In addition to assets, the balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, represents a use of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until that time. The City has one item that qualifies for reporting in this category, deferred loss on extinguishment of debt in the amount of \$303,084. This item is reported in the Statement of Net Position.

Accrued Expenses: Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through September 30, 2017, along with applicable Nationwide Retirement Solution (NRS), FICA, and Medicare payable.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

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 (October 1 through September 30). Employees who exceed the 40 hours carry over to the next fiscal year will lose the excess accrued hours. Sick leave will not be 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 governmental activities statement of net position. For bonds issued after GASB 34 was implemented, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. For fund financial reporting, bond premiums and discounts are recognized in the period the bonds are issued. Bond proceeds are reported as an other financing source, net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources: In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The City has three types of items which arise under the modified accrual basis of accounting that qualify for reporting in this category. Accordingly, these items, property taxes, grants, and municipal court warrants, are reported only in the governmental funds balance sheet. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available. The City has recorded \$950,011 related to property taxes, and \$103,697 related to municipal court warrants.

Deferred Compensation: 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 the 10% of their earnings into an annuity contract. The City matched 5% of the participants' contribution into the Plan. The City's contribution into the Plan for the fiscal year ended September 30, 2017 totaled \$64,591, the employees contributed \$86,671.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

Nonspendable fund balance classification are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes amounts to be held in perpetuity.

Restricted fund balance 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. Enabling legislation, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

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.

For 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.

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 that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

For the classification of fund balances, the City considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the City considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Nonspendable Fund Balance: At September 30, 2017, the nonspendable fund balance in the funds was made up of inventory and prepaid expenses in the amount \$5,728 and \$6,089, respectively, which are not in spendable form.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position (Continued)

Restricted and Committed Fund Balance: At September 30, 2017, the restricted fund balance on the governmental funds balance sheet is made up of \$174,669 which represents funding under grants and other City projects that is restricted by outside sources for special purposes, \$4,074,742, which represents funds restricted by outside sources for capital projects at the City, and \$221,054, which is restricted for debt service.

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, 2017 is \$1,336,997, which is considered to be committed fund balance.

Net Position: Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets: Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The City had \$4,052,024 in unspent bond proceeds as of September 30, 2017.
- b. Restricted net position: Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position: All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant estimates presented in the City's financial statements are the allowances for uncollectible receivables and the remaining useful lives on capital assets.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 all project ordinances and has the authority to amend such ordinances. All budgets are prepared on the modified accrual 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 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. All funds are required to be budgeted and appropriated. 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.

As part of the City's budgetary process, the City Council approves the official estimated resources. The official estimated resources states the projected revenue of each fund. Prior to September 30, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the official estimated resources. The revised budget then serves as the basis for the annual appropriation measure. 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 2017.

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.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Information (Continued)

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.

The accompanying Statements of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Budgetary Basis) and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

NOTE 3: DEPOSITS

The City's investment policy allows for investments in obligations of the United States, its agencies and instrumentalities; certificates of deposits issued by state or national banks domiciled in the state of Texas; fully collateralized direct repurchase agreements with defined termination dates; money market mutual funds that are registered and regulated by the Securities and Exchange Commission, have dollar weighted average stated maturity of 90 days or less, are rated AAA by at least one nationally recognized rating service and seek to maintain a net assets value of \$1 per share; and local government investment pools as allowed by the Texas Public Funds Investment Act.

In accordance with state law, investments in investment pools must be rated at least AAA by at least one nationally recognized rating service. In accordance with state law, the City does not purchase any investments with maturities greater than two years.

LOGIC is an AAA rated investment program tailored to meet the needs of local governments in Texas. LOGIC is not registered with the Securities and Exchange Commission (SEC) as an investment company. LOGIC securities are authorized in accordance with the Texas Public Funds Investment Act. LOGIC is carried at amortized cost which approximates fair value.

All of the City's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, are insured by the FDIC up to the standard maximum deposit insurance amount of \$250,000.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires all deposits in excess of \$100,000 to be 102% collateralized by obligations of the United States or its agents or instrumentalities. At September 30, 2017, \$9,095,355 of the City's balance of \$9,493,493 was exposed to custodial risk. Although the \$9,095,355 was uninsured, it was collateralized by collateral held by pledging bank's trust department, not in the City's name. None of the City's deposits were uninsured and uncollateralized at September 30, 2017.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 3: DEPOSITS (Continued)

	Wells Fargo	1st National Bank	Total
Amount of deposits	\$ 9,345,355	\$ 148,138	\$ 9,493,493
FDIC Coverage	(250,000)	(148,138)	(398,138)
Total uninsured public funds	9,095,355	-	9,095,355
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	9,095,355	-	9,095,355
Uninsured and uncollateralized	\$ -	\$ -	\$ -

The types of collateral are limited to direct obligations of the United States Government and all bonds issued by any agency, City, or political subdivision of the State of Texas.

Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents per Statement of Net Position	\$ 4,773,132
Restricted cash and cash equivalents per Statement of Net Position	4,430,289
Investments per Statement of Net Position	237,687
Total cash, cash equivalents, and investments	9,441,108
Add: outstanding checks	149,436
Less: deposits in transit	(6,252)
Less: petty cash	(1,250)
Less: investment in Logic	(89,549)
Bank balance of deposits	\$ 9,493,493

Investments

The City's investments at September 30, 2017 are \$237,687 of certificates of deposit with initial maturities that are greater than 90 days and therefore are considered investments in the Statement of Net Position. Certificates of deposit are not required to be disclosed at fair value in accordance with GASB 72. They are reported at amortized cost, which assimilates fair value.

Interest Rate Risk- Investments. Interest rate risk is the potential for a decline in market value due to rising interest rates. For example, a bond or other security is guaranteed only as to the timely payment of interest and principal; its market price is not guaranteed. Bonds issued by the United States government and corporations will fluctuate in value as interest rates change. In general, the market value of a bond varies inversely with interest rates. If interest rates rise, prices generally fall; if interest rates fall, prices generally rise. In addition, for a given change in interest rates, longer-maturity bonds typically fluctuate more in price (gaining or losing more in value) than short-maturity bonds. To compensate investors for this risk, longer-maturity bonds generally offer higher yields than shorter-maturity bonds, all other factors, including credit quality, being equal.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 3: DEPOSITS (Continued)

Credit Risk – Investments. Credit risk is the possibility that the issuer of a bond or other security will fail to make timely payments of interest or principal. Generally, the greater the credit risk, the higher the yield, all other factors being equal. Direct United States Treasury obligations are generally considered to have the lowest credit risk among securities.

Concentration of Credit Risk – Investments. For an investment, concentration of credit risk is when any one issuer is 5% or more of the investment portfolio of the City. The investments in Logic and 1st National CD represent 37% and 63%, respectively, of the investment portfolio. Since the City only purchases investments with the highest credit rating, the additional concentration is not viewed to be an additional risk by the City.

NOTE 4: RECEIVABLES

Governmental fund receivables as of September 30, 2017, are as follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Property taxes	\$ 1,058,297	\$ -	\$ 374,413	\$ 1,432,710
Other taxes:				
Sales taxes	311,865	-	-	311,865
Franchise taxes	167,105	-	-	167,105
Due from other governments	-	73,700	-	73,700
Other Receivables:				
Miscellaneous	47	-	-	47
Municipal court warrants	5,168,439	-	-	5,168,439
Less: Allowance for doubtful accounts related to Municipal Court Warrants	(5,045,042)	-	-	(5,045,042)
Total other receivables	123,444	-	-	123,444
Total net receivables	\$ 1,660,711	\$ 73,700	\$ 374,413	\$ 2,108,824

In accordance with GASB No. 33, property tax revenues in the amount of \$950,011, and municipal court warrants revenues in the amount of \$103,697 that were not collected within the period of availability have been reclassified as deferred inflows in the governmental fund financial statements.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 5: TRANSFERS AND INTERFUND RECEIVABLES AND PAYABLES

Net operating transfers, made to supplement other funding sources, were as follows:

Transfers Out	Transfers In	Amount
Capital Projects Fund	Special Revenue Fund	\$ 315

The City records temporary interfund receivables and payables to enable the funds to operate until reimbursements are received. The composition of interfund balances during the year ended September 30, 2017 is as follows:

Governmental Activities	Due from other funds	Due to other funds
General Fund	\$ 305,997	\$ 181,149
Special Revenue Fund	101,368	233,539
Capital Projects Fund	23,175	457
Debt Service Fund	-	15,395
Total	\$ 430,540	\$ 430,540

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 6: CAPITAL ASSETS

The following is a summary of capital assets and changes occurring for governmental activities during the year ended September 30, 2017. Land and construction in progress are not subject to depreciation.

	Balance September 30, 2016	Additions	Deletions	Balance September 30, 2017
Capital assets not being depreciated:				
Land	\$ 2,318,059	\$ 3,400	\$ -	\$ 2,321,459
Construction in progress	2,848,275	793,320	(1,998,486)	1,643,109
Total capital assets not being depreciated	5,166,334	796,720	(1,998,486)	3,964,568
Capital assets being depreciated:				
Building, structures, and improvements	1,684,221	-	-	1,684,221
Machinery and equipment	1,949,003	28,763	-	1,977,766
Vehicles	1,792,939	84,077	-	1,877,016
Office furniture and equipment	438,986	-	-	438,986
Software	55,378	37,433	-	92,811
Infrastructure	22,128,855	2,615,925	-	24,744,780
Leasehold improvements	212,942	-	-	212,942
Total capital assets being depreciated	28,262,324	2,766,198	-	31,028,522
Total capital assets	33,428,658	3,562,918	(1,998,486)	34,993,090
Less accumulated depreciation:				
Building, structures, and improvements	543,488	47,687	-	591,175
Machinery and equipment	1,550,793	150,921	-	1,701,714
Vehicles	1,464,593	114,546	-	1,579,139
Office furniture and equipment	358,751	39,703	-	398,454
Software	55,378	5,792	-	61,170
Infrastructure	8,063,337	498,256	-	8,561,593
Leasehold improvements	99,595	5,017	-	104,612
Total accumulated depreciation	12,135,935	861,922	-	12,997,857

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 6: CAPITAL ASSETS (Continued)

Depreciation expense for the year ended September 30, 2017 was charged to the functions of the governmental activities as follows:

General government	\$	30,587
Justice system		11,442
Public safety		83,242
Community and economic development		57,580
Infrastructure and environment		679,071
		679,071
Total depreciation expense	\$	861,922

NOTE 7: LONG-TERM DEBT

During the year ended September 30, 2017, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	Balance September 30, 2016	Additions	Retirements	Balance September 30, 2017	Due Within One Year
Bonds	\$ 23,070,000	\$ -	\$ 925,000	\$ 22,145,000	\$ 955,000
Compensated Absences	44,689	159,553	143,685	\$ 60,557	60,557
Total long-term debt	\$ 23,114,689	\$ 159,553	\$ 1,068,685	\$ 22,205,557	\$ 1,015,557

Bonds outstanding at September 30, 2017 consisted of the following:

On June 9, 2016, the City issued a \$3,510,000 General Obligations Refunding Bond (Series 2016) with an interest rate of 2.00% to 4.00% to refund \$3,500,000 of outstanding 2008 Combination Tax and Revenue bonds. The net refunding proceeds of \$3,765,529 (Issuance plus bond premium of \$356,559 minus bond expenditures of \$101,030) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with U.S. Bank National Association (the escrow agent) to provide for designated future debt service payments on the 2008 Series bond. As a result, the 2008 Series bond is considered to be partially defeased and the liability for the defeased portion has been removed from the government-wide financial statement of net position. The advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$331,278, which is reported as a deferred outflow on the government-wide statement of net position. The Combination Tax and Revenue Bond, Series 2008 has a remaining balance of \$275,000 which matures September 2018 with an interest rate of 2.25% to 4.70% and is payable semiannually on March 1 and September 1. The balance remaining at September 30, 2017 for the General Obligation Refunding Bonds, Series 2016 is \$3,460,000.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 7: LONG-TERM DEBT (Continued)

In 2010, the City issued General Obligation Refunding Bonds, Series 2010 maturing March 2030. The proceeds of the Series 2010 bonds were used to refund a portion of the City's outstanding debt, including all of the maturities of the Series 1999 bonds, Series 2001 bonds, Series 2004 bonds, and to pay the costs of issuing the Series 2010 bonds. This bond matures March 2024. The purpose of such refunding was to lower overall debt service requirements related to the refunded obligations. In the same offering, the City issued Combination Tax and Revenue Certificate of Obligations, Series 2010. The Series 2010 bonds are dated October 14, 2010. Interest on the bonds, with a floor of 2.00% and a ceiling of 4.00%, is payable semi-annually on March 1 and September 1 of each year. The balance due for the General Obligation Refunding Bonds, Series 2010 and the Combination Tax and Revenue Certificate of Obligations, Series 2010 at September 30, 2017 were \$865,000 and \$2,480,000, respectively.

In 2011, the City issued Combination Tax and Revenue Bonds, Series 2011. The original date of issue was September, 2011. Interest on the bonds ranges from 2.00% to 4.25% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2012. The balance due for this bond at September 30, 2017 is \$2,220,000. This bond matures March 2031.

In 2012, the City issued Combination Tax and Revenue Bonds, Series 2012. The original date of issue was August, 2012. Interest on the bonds ranges from 2.00% to 3.50% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2013. The balance due for this bond at September 30, 2017 is \$4,310,000. This bond matures March 2032.

In 2014, the City issued Combination Tax and Revenue Bonds, Series 2014. The original date of issue was July 2014. Interest on the bonds ranges from 2.00% to 5.00% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2015. The balance due for this bond at September 30, 2017 is \$8,535,000. This bond matures March 2034.

The annual requirements to amortize the Bonds Payable as of September 30, 2017, including interest payments is as follows:

Fiscal Year	Total Debt		
Ending September 30,	Principal	Interest	Service
2018	955,000	\$ 809,188	\$ 1,764,188
2019	1,000,000	787,263	1,787,263
2020	1,030,000	759,688	1,789,688
2021	1,060,000	729,564	1,789,564
2022	1,090,000	695,013	1,785,013
2023-2027	6,085,000	2,862,022	8,947,022
2028-2032	7,470,000	1,578,327	9,048,327
2033-2034	3,455,000	174,875	3,629,875
	\$ 22,145,000	\$ 8,395,940	\$ 30,540,940

NOTE 8: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries and natural disasters.

During the fiscal year September 30, 2017, the City purchased commercial insurance with Texas Municipal League Intergovernmental Risk Pool to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage.

NOTE 9: OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Generally accepted accounting principles require disclosures of certain information concerning individual funds including:

- A. Deficit fund balance of individual funds. There were no funds that reflected a deficit fund balance as of September 30, 2017.
- B. As of September 30, 2017, there were no funds that exceeded approved budgetary authority.

NOTE 10: JOINT POWERS AGREEMENTS

The City's police department entered into a contract with the Immigration and Customs Enforcement (ICE), Homeland Security Investigations (HIS), Office of the Special Agent in Charge for El Paso, Texas for the purpose of the reimbursement costs incurred by the City of Socorro Police Department in providing resources to joint operations task force. This agreement remains in force unless explicitly terminated, in writing, by either party. Both parties are responsible in this agreement. The maximum reimbursement entitlement for overtime worked on behalf of the joint investigation is set at \$15,000 per officer per year.

The City entered into a MOU contract with the Socorro County Independent School City for the purpose of providing access to the Texas Law Enforcement Communications System, the Texas Crime Information Center, and the National Crime Information Center, and associated systems 24 hours a day, 7 days a week. Agreement can be canceled by either party with a 30 day written notice.

The City entered into an agreement with the City of El Paso, El Paso County, the City of Anthony, and the City of Horizon, for the purpose of supporting overtime, per diem, and lodging for operational purposes of the Operation Stonegarden. In addition the purpose of this agreement is to enhance border security and enhance cooperation and coordination between Federal, State and Local law enforcement agencies in a joint mission to secure U.S borders. Total amount of contract between parties are \$2,323,001.

The City entered into a contract with the Lower Valley Water City for the purpose of providing certain services relating to the operation of the sewage facilities to provide the citizens of Socorro adequate public health protection and a minimum of environmental pollution.

NOTE 10: JOINT POWERS AGREEMENTS (Continued)

The City entered into a contract with the County of El Paso on behalf of the El Paso County Rural Transit for the purpose of operating a public rural transit bus system in the City. Under the terms of the contract, the City is required to pay \$5,000 to share in the cost of operation. The contract is automatically renewed every year with the agreement that either party can terminate the contract at any time.

NOTE 11: CONTINGENT LIABILITIES

The City is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City and, therefore, no liability was accrued at September 30, 2017.

NOTE 12: COMMITMENTS

The City has various construction projects in process as of September 30, 2017. There are numerous contracts with material amounts committed for these projects; however, the amounts cannot be quantified by the City as of September 30, 2017.

NOTE 13: RESTRICTED NET POSITION

The government-wide statement of net position reports \$6,911,893 of restricted net position, all of which is restricted by enabling legislation.

NOTE 14: SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is July 5, 2018, which is the date on which the financial statements were issued. The City committed fund balances in subsequent year for specific projects. The City committed \$239,752 and \$245,452 for the Future Arterial (1-1682 Tiguas P.E.) projects and the 3-Safe Routes to Schools Projects, respectively,

NOTE 15: CONCENTRATIONS

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.

City of Socorro, Texas
Notes to Financial Statements
September 30, 2017

NOTE 16: SUBSEQUENT PRONOUNCEMENTS

In June 2015, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The standard will be implemented during the fiscal year ended September 30, 2018. This pronouncement will not affect the City's financial statements.

In November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In January 2017, GASB Statement No. 84 *Fiduciary Activities*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

In March 2017, GASB Statement No. 85 *Omnibus 2017*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The City is still evaluating how this pronouncement will affect the financial statements.

In May 2017, GASB Statement No. 86 *Certain Debt Extinguishment Issues*, was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This Statement addresses a variety of topics including issues related to insubstance defeasance of debt using only existing resources. The City does not expect the pronouncement to have a material effect on the financial statements.

In June 2017, GASB Statement No. 87 *Leases* was issued. Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Early application is encouraged. The City is still evaluating how this pronouncement will affect the financial statements.

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

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Required Supplementary Information

City of Socorro, Texas
General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable)
				Final to Actual
Revenues				
Taxes:				
Property	\$ 5,151,407	\$ 5,151,407	\$ 5,130,093	\$ (21,314)
Sales	1,666,667	1,666,667	1,493,924	(172,743)
Franchise	323,000	323,000	613,218	290,218
Planning and zoning fees	311,500	311,500	476,320	164,820
Charges for services	4,000	4,000	7,861	3,861
Municipal court fines and fees	560,000	560,000	432,578	(127,422)
Intergovernmental income:				
State operating grants	32,000	32,000	-	(32,000)
Investment income	1,200	1,200	1,757	557
Miscellaneous	12	12	16,853	16,841
Total revenues	8,049,786	8,049,786	8,172,604	122,818
Expenditures				
Current:				
General government	1,539,488	1,488,734	1,399,713	89,021
Infrastructure and environmental	2,490,700	2,387,507	2,270,854	116,653
Public safety	3,117,814	3,017,881	2,977,120	40,761
Justice system	282,177	262,469	258,647	3,822
Health and human services	484,279	674,539	671,954	2,585
Community and economic development	417,122	444,452	388,748	55,704
Capital outlay	-	-	53,192	(53,192)
Total expenditures	8,331,580	8,275,582	8,020,228	255,354
Excess (deficiency) of revenues over expenditures	(281,794)	(225,796)	152,376	378,172
Other financing sources (uses)				
Designated cash (budgeted increase in cash)	281,794	225,796	-	(225,796)
Insurance recovery	-	-	96,086	96,086
Total other financing sources (uses)	281,794	225,796	96,086	(129,710)
Net change in fund balance	-	-	248,462	248,462
Fund balance - beginning of year	4,879,435	4,879,435	4,879,435	-
Fund balance - end of year	\$ 4,879,435	\$ 4,879,435	\$ 5,127,897	\$ 5,127,897

See independent auditors' report.

City of Socorro, Texas
Special Revenue Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Taxes:				
Franchise	\$ -	\$ -	\$ 10,066	\$ 10,066
Intergovernmental income:				
Federal operating grants	410,914	410,914	288,970	(121,944)
Federal capital grants			-	-
State operating grants	841,444	841,444	176,130	(665,314)
Miscellaneous revenues		-	65,768	65,768
Total revenues	1,252,358	1,252,358	540,934	(711,424)
Expenditures				
Current:	-	-		
General government	1,144,526	1,144,526	318,116	826,410
Public safety	107,832	107,832	102,071	5,761
Justice system	-	-	3,204	(3,204)
Capital outlay	-	-	114,895	(114,895)
Total expenditures	1,252,358	1,252,358	538,286	714,072
Excess (deficiency) of revenues over expenditures	-	-	2,648	2,648
Other financing sources (uses)				
Transfers (out)	-	-	315	315
Total other financing sources (uses)	-	-	315	315
Net change in fund balance	-	-	2,963	2,963
Fund balance - beginning of year	171,706	171,706	171,706	-
Fund balance - end of year	\$ 171,706	\$ 171,706	\$ 174,669	\$ 2,963

See independent auditors' report.

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Other Information

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City of Socorro, Texas
Debt Service Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
				<u>Final to Actual</u>
Revenues				
Taxes:				
Property	\$ 1,765,895	\$ 1,765,895	\$ 1,809,264	\$ 43,369
Total revenues	1,765,895	1,765,895	1,809,264	43,369
Expenditures				
Debt service:				
Principal	900,000	900,000	925,000	(25,000)
Interest	865,895	865,895	840,895	25,000
Total expenditures	1,765,895	1,765,895	1,765,895	-
Excess (deficiency) of revenues over expenditures	-	-	43,369	43,369
Net change in fund balance	-	-	43,369	43,369
Fund balance - beginning of year	177,685	177,685	177,685	-
Fund balance - end of year	\$ 177,685	\$ 177,685	\$ 221,054	\$ 43,369

See independent auditors' report.