

CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2018

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YEAR ENDED SEPTEMBER 30, 2018

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CITY OF SOCORRO, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2018

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CITY OF SOCORRO, TEXAS

PRINCIPAL OFFICIALS

Name

Title

Elia Garcia

Mayor

City Council

Rene Rodriguez

At Large Representative

Cesar Nevarez

District 1 Representative

Ralph Duran

District 2 Representative

Victor Perez

Mayor Pro Tem/ District 3
Representative

Yvonne Colon-Villalobos

District 4 Representative

City Administration

Adriana Rodarte

City Manager

Charles Casiano, CPA

Finance Director

Olivia Navarro

City Clerk

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the City of Socorro, Texas ("the City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Socorro, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Socorro, Texas, as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Budgetary Comparison for the General Fund and the Special Revenue Fund on pages 37 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

(Continued)

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

Other Matters

Other Information (Continued)

The budgetary comparison for the debt service fund, budgetary comparison for the capital improvements fund, and the schedule of expenditures of federal and state 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 debt Service Fund, budgetary comparison for the capital improvements fund, and the schedule of expenditures of federal and state 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 11, 2019, 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 11, 2019

CITY OF SOCORRO, TEXAS
STATEMENT OF NET POSITION

September 30, 2018

<u>ASSETS</u>	Governmental <u>Activities</u>
Cash and cash equivalents	\$ 3,989,915
Restricted cash	1,489,267
Investments	240,238
Taxes receivable	2,424,134
Grants receivable	37,503
Other receivables, net	193,702
Prepaid expenses	15,839
Other assets	5,000
Non-depreciable capital assets	4,595,160
Depreciable capital assets, net of accumulated depreciation	<u>28,556,688</u>
Total assets	<u>41,547,446</u>
 <u>LIABILITIES</u> 	
Accounts payable	673,403
Accrued liabilities	203,830
Due within one year:	
Compensated absences	53,702
Bonds payable	1,000,000
Due in more than one year:	
Bonds payable	20,190,000
Bonds premium	<u>1,078,608</u>
Total liabilities	<u>23,199,543</u>
 <u>NET POSITION</u> 	
Net position:	
Invested in capital assets, net of related debt	10,183,728
Restricted	1,218,406
Unrestricted	<u>6,945,769</u>
Total net position	<u>\$ 18,347,903</u>

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

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2018

<u>FUNCTIONS/PROGRAMS</u>	<u>Direct Expenses</u>	<u>Program Revenues</u>			Net Revenue (Expenses) and Changes in Net Position Governmental Activities
		<u>Charges for Services, Fees, Fines and Forfeitures</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Infrastructure and environmental	\$ 3,574,267	\$ 347,516	\$ 111,850	\$ 7,812,918	\$ 4,698,017
Public safety	3,255,728				(3,255,728)
General government	1,517,096	53,696			(1,463,400)
Interest on long-term debt	1,013,929				(1,013,929)
Community development	518,540				(518,540)
Health and human services	394,708				(394,708)
Justice system	<u>254,967</u>	<u>705,321</u>	<u> </u>	<u> </u>	<u>450,354</u>
Total governmental	<u>\$ 10,529,235</u>	<u>\$ 1,106,533</u>	<u>\$ 111,850</u>	<u>\$ 7,812,918</u>	<u>(1,497,934)</u>
General revenues:					
					7,108,706
					1,567,693
					688,810
					4,018
					<u>102,072</u>
					9,471,299
					<u>7,973,365</u>
					9,648,955
					<u>725,583</u>
					<u>10,374,538</u>
					<u>\$ 18,347,903</u>

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

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 3,897,755	\$ 92,160	\$	\$	\$ 3,989,915
Restricted cash		392,937	177,165	919,165	1,489,267
Investments	240,238				240,238
Taxes receivable	1,930,515		493,619		2,424,134
Due from other funds	438,620	108,360		7,105	554,085
Grants receivable		7,503		30,000	37,503
Other receivables, net	193,702				193,702
Prepaid expenses	<u>15,839</u>				<u>15,839</u>
Total assets	<u>\$ 6,716,669</u>	<u>\$ 600,960</u>	<u>\$ 670,784</u>	<u>\$ 956,270</u>	<u>\$ 8,944,683</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 393,526	\$ 23,576	\$	\$ 256,301	\$ 673,403
Accrued expenses	142,818				142,818
Due to other funds	<u>181,149</u>	<u>356,504</u>	<u>15,975</u>	<u>457</u>	<u>554,085</u>
Total liabilities	<u>717,493</u>	<u>380,080</u>	<u>15,975</u>	<u>256,758</u>	<u>1,370,306</u>
Deferred inflows of resources:					
Deferred property taxes	1,022,607		356,795		1,379,402
Deferred court fees	<u>124,757</u>				<u>124,757</u>
Total deferred inflows of resources	<u>1,147,364</u>		<u>356,795</u>		<u>1,504,159</u>
Fund balances:					
Nonspendable	15,839				15,839
Restricted for:					
Debt service			298,014		298,014
Capital projects				699,512	699,512
Other purposes		220,880			220,880
Committed for:					
Capital improvements	485,204				485,204
Minimum fund balance	1,490,482				1,490,482
Unassigned	<u>2,860,287</u>				<u>2,860,287</u>
Total fund balances	<u>4,851,812</u>	<u>220,880</u>	<u>298,014</u>	<u>699,512</u>	<u>6,070,218</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 6,716,669</u>	<u>\$ 600,960</u>	<u>\$ 670,784</u>	<u>\$ 956,270</u>	<u>\$ 8,944,683</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, 2018

Total fund balances of governmental funds in the balance sheet \$ 6,070,218

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	46,680,136	
Accumulated depreciation	<u>(13,528,288)</u>	33,151,848

Deposits on hand are not considered current financial resources and not presented in the governmental funds: 5,000

Certain property tax revenues will be collected after year-end but are not available soon enough to pay for the current period expenditures and, therefore, are deferred on the modified accrual basis in governmental funds:

Deferred property taxes	1,379,402	
Deferred court fees	<u>124,757</u>	1,504,159

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	(21,190,000)	
Bonds premium	(1,078,608)	
Compensated absences	(53,702)	
Accrued interest	<u>(61,012)</u>	<u>(22,383,322)</u>

Total net position of governmental activities \$18,347,903

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, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>					
Federal and state grants	\$	\$ 111,850	\$	\$ 7,812,918	\$ 7,924,768
Property taxes	5,315,746		1,846,303		7,162,049
Sales taxes	1,567,693				1,567,693
Franchise taxes	679,093	9,717			688,810
Municipal court fines and fees	684,014	247			684,261
Planning and zoning fees	337,516	10,000			347,516
Charges for services	5,609	48,087			53,696
Investment income	2,775			1,243	4,018
Other income	<u>72,573</u>	<u>14,618</u>	<u> </u>	<u>14,881</u>	<u>102,072</u>
 Total revenues	 <u>8,665,019</u>	 <u>194,519</u>	 <u>1,846,303</u>	 <u>7,829,042</u>	 <u>18,534,883</u>

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Total Governmental Funds</u>
<u>EXPENDITURES</u>					
Public safety	\$3,048,787	\$124,311	\$	\$	\$ 3,173,098
Infrastructure and environmental	2,598,726			3,806	2,602,532
General government	1,486,516	6,188			1,492,704
Community development	433,350				433,350
Health and human services	394,708				394,708
Justice system	254,204				254,204
Debt service:					
Principal			955,000		955,000
Interest			814,343		814,343
Capital outlay	<u>724,813</u>	<u>17,809</u>		<u>11,200,466</u>	<u>11,943,088</u>
 Total expenditures	 <u>8,941,104</u>	 <u>148,308</u>	 <u>1,769,343</u>	 <u>11,204,272</u>	 <u>22,063,027</u>
 Net change in fund balance	 (276,085)	 46,211	 76,960	 (3,375,230)	 (3,528,144)
 Fund balance, beginning of the year	 <u>5,127,897</u>	 <u>174,669</u>	 <u>221,054</u>	 <u>4,074,742</u>	 <u>9,598,362</u>
 Fund balance, end of the year	 <u>\$4,851,812</u>	 <u>\$220,880</u>	 <u>\$ 298,014</u>	 <u>\$ 699,512</u>	 <u>\$ 6,070,218</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, 2018

Net change in fund balances – total governmental funds \$ (3,528,144)

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	11,943,088	
Depreciation expense	<u>(1,171,565)</u>	10,771,523

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	(53,343)
Change in unavailable revenue related to municipal court	21,060

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

87,391

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.

955,000

Certain items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in accrued interest payable	16,107
Change in compensated absences payable	6,855

Governmental funds report any losses incurred in the early retirement or refinancing of bonds as expenditures, whereas these amounts are deferred and amortized in the statement of activities:

Amortization of loss on extinguishment of debt	<u>(303,084)</u>
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Change in net position of governmental activities \$ 7,973,365

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

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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.

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.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

In addition to assets and liabilities, the government fund balance sheet and the government-wide statement of net position may report separate sections of deferred outflows of resources and deferred inflows of resources. Accounting policies regarding deferred inflows and outflows of resources are explained on pages 18 and 28.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

Special Revenue Fund – The Special Revenue Fund is used to account for the expenditures of state and local awards that have been restricted to be used in public service. Grant revenue is recognized when compliance with the various contract requirements is 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.

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

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

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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Calendar – The City is responsible for the assessment, collection, and apportionment of property taxes. The Council levies property taxes on October 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$962,497,846 for the year ended September 30, 2018. 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 2017-2018 tax rate was \$.727555, per \$100 of assessed valuation. The Town incurred expenditures of \$99,351 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2018.

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.

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.

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, 2018, management determined all outstanding grants and contracts receivable to be fully collectable. Accordingly, no allowance has been established.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

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

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

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

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

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

Impairment of 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, 2018.

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 the 40 hours carry over to the next fiscal year will lose the excess accrued hours. Sick leave is not be paid out upon termination.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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, 2018, nonspendable fund balance consisted of prepaid expenses in the amount of \$15,839.

Restricted fund balance – Amount 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, 2018, the restricted fund balance on the governmental funds is \$1,218,406.

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, 2018 was composed of funds reserved for future infrastructure projects. The City Council also established a policy to maintain a minimum fund balance. The minimum fund balance reserve was \$1,490,482 at September 30, 2018.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification Policies and Procedures (Continued) –

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, 2018.

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. At September 30, 2018, the unassigned fund balance of the governmental funds is \$2,860,287.

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, 2018 is \$1,490,482, which is considered to be committed fund balance.

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.

Allowance for Doubtful Accounts – 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 \$5,830,600 at September 30, 2018.

Reclassifications – Certain items have been reclassified in 2017 to conform to the 2018 presentation of the financial statements.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS

The City's deposits and investments are invested 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, 2018 had a bank balance of \$5,579,278. The bank balance differs from the register cash balance of \$3,989,915 and restricted cash of \$1,489,267 due to checks and deposits that were in transit at the end of the fiscal year.

Custodial Credit Risk - Deposits – The District'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 District 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 collateral funds. At September 30, 2018, pledged collateral funds securing the District's deposits had a fair market value of \$5,835,062, which exceeded the District's bank balances totaling \$5,579,278.

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 the changed in interest rates. The City attempts to match its investments with anticipated cash flow requirements. The City will not directly invest in securities maturing more than two years from the date of purchase. The maximum maturity for repurchase agreements shall be 120 days, and the composite portfolio should have a weighted average maturity of 36 days or less.

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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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

The City had the following investments at September 30, 2018:

	<u>Cost</u>	<u>Fair Value/ Carrying Value</u>	<u>Measurement Method</u>
Certificates of Deposit	\$ 149,077	\$149,077	Cost
LOGIC	<u>91,161</u>	<u>91,161</u>	Amortized Cost
	<u>\$240,238</u>	<u>\$240,238</u>	

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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

PROPERTY TAX AND OTHER RECEIVABLES

Property tax and other receivables consist of the following at September 30, 2018:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Property taxes:			
Property taxes, current	\$ 474,145	\$	\$ 474,145
Property taxes, delinquent	<u>1,449,197</u>	<u> </u>	<u>1,449,197</u>
	1,923,342		1,923,342
Sales taxes and franchise fees	<u>500,792</u>	<u> </u>	<u>500,792</u>
Taxes receivable	<u>\$2,424,134</u>	<u>\$ </u>	<u>\$2,424,134</u>
Court warrants	<u>\$6,024,302</u>	<u>\$(5,830,600)</u>	<u>\$ 193,702</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, 2018:

Texas Historic Commission	\$30,000
U.S. Marshals Task Force	4,626
Border Star	1,733
Stone Garden	771
FBI Task Force	<u>373</u>
Total	<u>\$37,503</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, 2018 is as follows:

<u>Receivable Fund</u>	<u>Due to other fund</u>	<u>Due from other funds</u>
General Fund	\$181,149	\$438,620
Special Revenue Fund	356,504	108,360
Debt Service Fund	15,975	
Capital Projects Fund	<u>457</u>	<u>7,105</u>
Total	<u>\$554,085</u>	<u>\$554,085</u>

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS

The following is a summary of capital assets and changes occurring for governmental activities during the year ended September 30, 2018:

	Balance at September 30, 2017	Additions	Disposals	Reclassifications	Balance at September 30, 2018
Non-depreciable capital assets:					
Land	\$2,321,459	\$499,034	\$	\$	\$2,820,493
Construction in progress	<u>1,643,109</u>	<u>440,595</u>	_____	<u>(309,037)</u>	<u>1,774,667</u>
 Total non-depreciable capital assets	 <u>3,964,568</u>	 <u>939,629</u>	 _____	 <u>(309,037)</u>	 <u>4,595,160</u>
Depreciable capital assets:					
Infrastructure	\$25,129,872	\$9,523,954	\$	\$309,037	\$34,962,863
Machinery and equipment	1,977,766	505,832	(82,062)		2,401,536
Buildings	1,684,220	505,952			2,190,172
Vehicles	1,877,016	455,413	(471,048)		1,861,381
Furniture	438,986	12,308	(82,453)		368,841
Leasehold improvements	212,942				212,942
Software	<u>92,811</u>	_____	<u>(5,570)</u>	_____	<u>87,241</u>
	<u>31,413,613</u>	<u>11,003,459</u>	<u>(641,133)</u>	<u>309,037</u>	<u>42,084,976</u>
Less accumulated depreciation for:					
Infrastructure	(8,561,593)	(750,212)			(9,311,805)
Machinery and equipment	(1,701,714)	(167,744)	82,062		(1,787,396)
Buildings	(591,175)	(77,147)			(668,322)
Vehicles	(1,579,139)	(135,873)	471,048		(1,243,964)
Furniture	(398,453)	(24,045)	82,453		(340,045)
Leasehold improvements	(104,613)	(5,017)			(109,630)
Software	<u>(61,169)</u>	<u>(11,527)</u>	<u>5,570</u>	_____	<u>(67,126)</u>
 Total accumulated depreciation	 <u>(12,997,856)</u>	 <u>(1,171,565)</u>	 <u>641,133</u>	 _____	 <u>(13,528,288)</u>
 Depreciable capital assets, net	 <u>18,415,757</u>	 <u>9,831,894</u>	 _____	 <u>309,037</u>	 <u>28,556,688</u>
 Total capital assets, net	 <u>\$22,380,325</u>	 <u>\$10,771,523</u>	 \$ _____	 \$ _____	 <u>\$33,151,848</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, 2018 as follows:

General government	\$	31,247
Justice system		763
Public safety		82,630
Community and economic development		85,190
Infrastructure and environment		<u>971,735</u>
 Total depreciation expense		 <u>\$1,171,565</u>

LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2018:

	Balance at September 30, 2017	Additions	Reductions	Balance at September 30, 2018	Due Within One Year
Compensated absences \$	60,557	\$156,347	\$ (163,202)	\$ 53,702	\$ 53,702
Bonds payable, net	<u>23,310,999</u>	<u> </u>	<u>(1,042,391)</u>	<u>22,268,608</u>	<u>1,000,000</u>
	<u>\$23,371,556</u>	<u>\$156,347</u>	<u>\$(1,205,593)</u>	<u>\$22,322,310</u>	<u>\$1,053,702</u>

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

Compensated absences

The City's leave policy allows employees to accumulate paid-time-off up to 40 hours per year with a maximum accumulation of 2,760 hours. Upon termination, any accumulated paid-time-off will be paid to the employee. As of September 30, 2018, employees had approximately 8,570 hours of accumulated paid-time-off.

Total accrued compensated absences	<u>\$53,702</u>
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(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Bonds Payable

In 2010, the City issued \$3,000,000 of Combination Tax and Revenue Certificates of Obligation, Series 2010. Interest rates varies from 2.00% to 4.00% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning October 2010 through March 2030. The original bond issue included a \$109,138 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 3.75%. \$2,330,000

The City issued \$2,300,000 of General Obligation Refunding Bonds, Series 2010. The proceeds of the Series 2010 bonds were used to refund a portion of the City's outstanding debt, including all 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. Interest rates vary from 2.00% to 4.00%, over the term of the bonds. Varying principal and interest payments are due semi-annually beginning October 2011 through March 2024. The original bond issue included a \$89,672 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 3.15%. 750,000

The City issued \$2,700,000 of Combination Tax and Revenue Certificates of Obligation, Series 2011. Interest rate varies from 2.00% to 4.25% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning September 2011 through March 2031. The original bond issue included a \$65,529 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 3.94%. 2,110,000

The City issued \$4,895,000 of Combination Tax and Revenue Certificates of Obligation, Series 2012. Interest rate varies from 2.00% to 3.50% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning August 2012 through March 2032. The original bond issue included a \$235,806 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 3.15%. 4,275,000

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (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 a \$730,088 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 3.79%. \$ 8,265,000

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 semiannual basis. Varying principal and interest payments mature on March 2028. The original bond issue included a \$356,559 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 2.22%. 3,460,000

Total bonds payable outstanding	21,190,000
Unamortized bond premium	<u>1,078,608</u>
Total bonds payable, net	<u>22,268,608</u>
Total long-term debt	<u>\$22,322,310</u>

Defeased Debt

In 2016, the City defeased \$3,500,000 relating to the outstanding principal of 2008 Series certificates of deposit, by placing new bond proceeds from 2016 general obligation refinance bonds in an irrevocable trust to provide for future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government's statement of net position. The final maturity payment on the defeased bond was made March 1, 2018, in accordance with the original maturity schedule. At September 30, 2018, no outstanding balance remained on the defeased bond. At the time of refinance, the outstanding principal on 2008 certificates of deposits and was re-purchased for total cost of \$3,765,529. The difference between the carrying balance at the refinance date and the repurchase price, plus certain debt issuance costs, was carried as a deferred loss in bond refinancing. The remaining unamortized balance in deferred bond refinancing loss was recognized as interest expense on the date the defeased bonds were paid off in full.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Annual debt service for the outstanding bonds is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 1,000,000	\$ 787,163	\$ 1,787,163
2020	1,030,000	759,688	1,789,688
2021	1,060,000	729,563	1,789,563
2022	1,090,000	695,013	1,785,013
2023	1,130,000	657,219	1,787,219
2024-2028	6,315,000	2,632,569	8,947,569
2029-2033	7,795,000	1,281,179	9,076,179
2034-2038	<u>1,770,000</u>	<u>44,250</u>	<u>1,814,250</u>
Totals	<u>\$21,190,000</u>	<u>\$7,586,644</u>	<u>\$28,776,644</u>

Totals of principal and interest components equal required minimum payments for periods shown, and total principal equals the net present value of these bonds and notes. Total principal includes unamortized bond premiums of \$1,078,608 at September 30, 2018.

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues in the amount of \$1,504,159 at September 30, 2018, 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 Town receives resources before it has a legal claim to them. The City has recorded \$1,379,402 related to property taxes, and \$124,757 related to municipal court warrants.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

RESTRICTED NET POSITION AND RESTRICTED FUND BALANCE

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

Capital projects	\$ 699,512
Debt service	298,014
Public safety	<u>220,880</u>
Total	<u>\$1,218,406</u>

COMMITTED FUND BALANCE

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

Safe Routes to School	\$ 245,452
Future Arterial (1-1682 Tigua P.E.)	239,752
Minimum fund balance	<u>1,490,482</u>
Total	<u>\$1,975,686</u>

DEFERRED COMPENSATION PLAN

All City employees are eligible to participate in the City's Deferred Compensation Plan (the "Plan") adopted under the provisions of the Internal Revenue Code 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The Plan is administered by Nationwide Retirement Solutions and is a defined contribution plan. Under the terms of the Plan, employees may contribute up to 10% of their earnings into an annuity contract. The City matches 5% of the participants' contribution into the Plan. Contributions into the Plan become 100% vested immediately. The City's contribution into the Plan for the fiscal year ended September 30, 2018 totaled \$72,627, and the employees contributed \$90,617.

RISK MANAGEMENT

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

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

RISK MANAGEMENT (Continued)

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 two Local Transportation Project Advance Funding Agreements with the Texas Department of Transportation (“TXDOT”) for the widening of Horizon and Buford Road. The agreements provide access to federal and state funds for the renovations of such roads. Funding for construction and supervision is provided by the U.S. Department of Transportation and was passed through TXDOT. In turn, TXDOT is responsible for managing federal and state funds committed to these projects. Accordingly, all federal and state funds expended for these projects are recognized by the City as an in-kind donation. Estimated budgets for the project are established in each agreement. The agreements stipulate the City’s participation (match) in the projects’ budgets, which is 9.4% for phase I and 26.6% for phase 3 of the actual cost of each project. In addition, any costs incurred for the projects in excess of federal and state budget caps are to be matched by the City. Total matching payments provided by the City to TXDOT from inception of the projects through September 30, 2018 amount to \$1,748,424.

During the fiscal year ended September 30, 2018, the City recognized in-kind grant awards for these two projects totaling \$7,782,918, of which \$6,570,387 represents federal funds and \$1,212,531 represents state funds. At September 30, 2018, the projects’ construction phase was substantially complete.

Camino Real Regional Mobility Authority

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

Upon the execution of the agreement between the Authority and TXDOT, the City entered into a separate interlocal agreement with the Authority, to define the City’s remaining responsibilities pertaining to the Nuevo Hueco Tanks Blvd. expansion project. As defined by the interlocal agreement, the City remains responsible for a match of \$54,697, out of which \$10,510 remained outstanding as of September 30, 2018.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

County of El Paso

The City entered into an interlocal agreement with the County of El Paso in which the City received animal control services by and through the El Paso County Sheriff's Office. The period of the contract began on January 1, 2017 and ended on December 31, 2017. The City incurred costs of \$75,248 under this contract, which were paid entirely in the fiscal year ended September 30, 2017. Subsequent to year end, the contract was renewed for an additional three year term, beginning on October 1, 2018 and ending on September 30, 2021. The renewal establishes a contract amount of \$63,455 for each year, to be paid in equal quarterly installments of \$15,864.

City of El Paso

The City entered into an interlocal agreement with the City of El Paso in which the City will receive animal shelter service from the City of El Paso. The period of the contract began on September 1, 2016 for a year and the contract automatically renews every year. Beginning September 1, 2017 animal shelter services will be based on the City's activity at the Shelter. The City incurred costs of \$118,814 in animal shelter services provided by the City of El Paso in 2018.

The City entered into an interlocal agreement with the City of El Paso in which the City received public health services from the City of El Paso, including but not limited to providing food handling permits, disease control and immunization services. The period of the contract began in September 1, 2017 and ended on August 31, 2018. Total compensation for the services was \$275,894 for the year ended September 30, 2018. The contract was renewed for an additional one year term, for a total amount of \$254,942 to be paid in quarterly installments.

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 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 on-going 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 three payments of \$109,150, beginning in March 2018 and due on each anniversary of the agreement. The second and third installments are to be adjusted for inflation based on changes in consumer price indexes. The City's policy is to capitalize each of the payments made in connection with the land easement as non-depreciable capital assets, unless a change in facts and circumstances indicates that the agreement will not be renewed after the initial 25-year period

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

Other Governmental Agencies

The City's police department entered into various contracts with the U.S. Marshal Service, the Federal Bureau of Investigation, and the Drug Enforcement Administration, for the purpose of the reimbursement of costs incurred by the City of Socorro Police Department in providing resources to joint operations task forces. These agreements remain in force unless explicitly terminated in writing by either party. Reimbursements received from task force agreements totaled \$48,087 for the year ended September 30, 2018.

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.

During 2018, the City failed to respond to a request for a desk review for a grant awarded by the Texas Department of Agriculture in a timely manner. The original deadline for submission was February 6, 2018. Subsequent notice of default was issued by the awarding agency on February 22, 2018, which suspended reimbursement of all program expenses, and requested a response date no later than March 9, 2018. The City provided a response and submitted the required documentation available on February 7, 2019. The awarding agency has not issued its final determination with regard to the late submission of requested grant files. Management estimates that approximately \$34,000 from a request for reimbursement that has not been approved by the awarding agency is likely to be disallowed. Accordingly, the amount has not been recognized as grant revenue, pending final determination by the awarding agency. Total grant funds reimbursed to the City prior to January 31, 2018 totaled \$238,645.

Litigation

During 2018, the City recognized total litigation settlement expense of \$241,097, which is included as general government expenses in the general fund. Among various legal proceedings, a significant portion of the total expense represents a settlement for a suit involving alleged damages to multiple parties as a result of flooding from storm water that occurred in July 2013. From the original group of plaintiffs, one party's claim remained open as of September 30, 2018. In addition, the City is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City and, therefore, no liability was accrued at September 30, 2018.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

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.

MAJOR FEDERAL AND STATE PROGRAMS

Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (“the Uniform Guidance”), defines a major program as a program with expenditures of federal funds in excess of \$750,000, unless other standards are established by funding sources. The federal portion of in-kind awards received from the Texas Department of Transportation is considered pass-through funds from the Department of Transportation under the Highway Planning and Construction Cluster. The total federal awards expended by the City under this Federal award totaled \$6,570,387 for the year ended September 30, 2018; therefore, the program is considered a major program for the purpose of the Uniform Guidance. Similar to the Uniform Guidance, the *Texas Uniform Grant Management Standards* (“UGMS”) defines a major state program as a program with expenditures of state funds in excess of \$750,000. Total in-kind state assistance received in the renovation and construction of infrastructure on behalf of the City totaled \$1,212,531 during 2018 and is considered a major state program for the purpose of UGMS.

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 December 31, 2018, approximately 42% of the City’s total revenues represented an in-kind state and federal award received from the Texas Department of Transportation, as part of an intergovernmental agreement to widen and renovate Horizon Blvd. and Buford Road.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

PRIOR PERIOD ADJUSTMENT

The following errors were detected and corrected during fiscal year 2018:

An understatement of previously reported property tax revenues was discovered during 2018 as a result of an incorrect application of the modified accrual method of accounting. Accordingly, an adjustment of \$482,734 was made to the opening balance of property tax receivables at October 1, 2017. The correction of the error had the effect of increasing previously reported unrestricted net position. The correction of the error did not affect previously reported fund balances in the governmental funds.

An understatement of the total cost of infrastructure improvements placed in service in August 2017 was discovered during 2018. The omission relates to the portion of infrastructure improvements for the Safe Routes to School Phase II Project, which was performed by the Texas Department of Transportation. Such expenses were funded with a Federal grant and were administered and spent by TXDOT on behalf of the City. The funds are considered a federal in-kind award for the City of Socorro. Accordingly, an adjustment of \$385,092 was made to the opening balance in depreciable capital assets at October 1, 2017. The correction of the error had the effect of increasing previously reported net investment in capital assets, a component of net position. The correction of the error did not affect previously reported fund balances in the governmental funds.

An understatement of long-term liabilities was discovered during 2018. The requirements of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*, had not been correctly implemented, resulting in the incorrect classification of debt issuance costs as a reduction of liabilities rather than an expense. Accordingly, an adjustment of \$142,243 was made to the opening balance in long-term liabilities for October 1, 2017. The correction of the error had the effect of decreasing previously reported unrestricted net position. The correction of the error did not affect previously reported fund balances in the governmental funds.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

PRIOR PERIOD ADJUSTMENT (Continued)

The following table summarizes the effect of corrected misstatements in previously stated amounts for the statement of net position:

Statement of net position	September 30, 2017, as Previously Presented	Restatement	September 30, 2017, as Restated
Current assets	\$11,709,477	\$482,734	\$12,192,211
Capital assets	<u>21,995,233</u>	<u>385,092</u>	<u>22,380,325</u>
Total assets	<u>33,704,710</u>	<u>867,826</u>	<u>34,572,536</u>
Deferred outflows of resources	<u>303,084</u>	_____	<u>303,084</u>
Less:			
Current liabilities	2,002,840		2,002,840
Long-term liabilities	<u>22,355,999</u>	<u>142,243</u>	<u>22,498,242</u>
Total liabilities	<u>24,358,839</u>	<u>142,243</u>	<u>24,501,082</u>
Net position	<u>\$ 9,648,955</u>	<u>\$725,583</u>	<u>\$10,374,538</u>

NEW ACCOUNTING PRONOUNCEMENTS

In April 2018, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued. The requirements of this Statement are effective for reporting periods beginning after June 15, 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 evaluating how this pronouncement will affect the financial statements.

In June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued. The requirements of this Statement are effective for reporting periods after December 15, 2018. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements. Interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The City is evaluating how this pronouncement will affect the financial statements.

(Continued)

CITY OF SOCORRO, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

NEW ACCOUNTING PRONOUNCEMENTS (Continued)

In June 2018, GASB Statement No. 90, *Majority Equity Interests*, was issued. The requirements of this Statement are effective for reporting periods after December 15, 2018. This Statement requires that 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. The City is evaluating how this pronouncement will affect the financial statements.

SUBSEQUENT EVENTS

On October 2018, the Texas Department of Agriculture approved an award to the City from the Texas Community Development Block Grant (TxCDBG) in the amount of \$275,000. The contract is conditional upon the City's completion of an open request for a desk review of a previous grant awarded by the same agency. Management submitted the requested documentation to complete the desk review on February 6, 2019.

Effective March 6, 2019, the City entered into a contract with a general contractor for the excavation of the Sparks Arroyo Phase I Onion Field Basis. The contract has a total value of \$1,772,762, with certain liquidating damages provisions taking effect if the construction is not substantially completed within 209 working days of the project's commencement date. The project's construction began on April 15, 2019 and is expected to be completed prior to December 13, 2019.

Subsequent events were evaluated through June 11, 2019 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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues/inflows:				
Property taxes	\$5,334,129	\$5,334,129	\$5,315,746	\$ (18,383)
Sales taxes	1,600,000	1,600,000	1,567,693	(32,307)
Municipal court	576,000	576,000	684,014	108,014
Franchise taxes	400,000	400,000	679,093	279,093
Planning and zoning fees	362,000	362,000	337,516	(24,484)
Charges for services	5,000	5,000	5,609	609
Investment income	4,000	4,000	2,775	(1,225)
Other income	<u>24,100</u>	<u>24,100</u>	<u>72,573</u>	<u>48,473</u>
 Total revenues	 <u>8,305,229</u>	 <u>8,305,229</u>	 <u>8,665,019</u>	 <u>359,790</u>
Expenditures/outflows:				
Public safety	3,140,252	3,053,752	3,048,787	4,965
Infrastructure and environmental	2,699,819	2,749,593	2,598,726	150,867
General government	1,583,107	1,785,457	1,486,516	298,941
Community and economic developm	439,000	445,100	433,350	11,750
Health and human services	600,000	500,000	394,708	105,292
Justice system	288,949	280,869	254,204	26,665
Capitlay outlay	<u>633,600</u>	<u>509,750</u>	<u>724,813</u>	<u>(215,063)</u>
 Total expenditures	 <u>9,384,727</u>	 <u>9,324,521</u>	 <u>8,941,104</u>	 <u>383,417</u>
 Excess (deficiency) of revenues over expenditures	 (1,079,498)	 (1,019,292)	 (276,085)	 743,207
 Fund balance, beginning of year	 <u>5,127,897</u>	 <u>5,127,897</u>	 <u>5,127,897</u>	 _____
 Fund balance, end of year	 <u>\$4,048,399</u>	 <u>\$4,108,605</u>	 <u>\$4,851,812</u>	 <u>\$ 743,207</u>

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Grant income	\$ 927,000	\$ 927,000	\$ 111,850	\$ (815,150)
Planning and zoning fees			10,000	10,000
Franchise taxes			9,717	9,717
Municipal court			247	247
Property taxes	70,000	70,000		(70,000)
Charges for services			48,087	48,087
Transfers from other funds	115,331	115,331		(115,331)
Other income			<u>14,618</u>	<u>14,618</u>
 Total revenues	 <u>1,112,331</u>	 <u>1,112,331</u>	 <u>194,519</u>	 <u>(917,812)</u>
Expenditures/outflows:				
Public safety	27,000	27,000	124,311	(97,311)
General government			6,188	(6,188)
Capital outlay	<u>1,260,000</u>	<u>1,260,000</u>	<u>17,809</u>	<u>1,242,191</u>
 Total expenditures	 <u>1,287,000</u>	 <u>1,287,000</u>	 <u>148,308</u>	 <u>1,138,692</u>
Excess of revenues (expenditures) over expenditures (revenues)	(174,669)	(174,669)	46,211	220,880
Fund balance, beginning of year	<u>174,669</u>	<u>174,669</u>	<u>174,669</u>	
Fund balance, end of year	<u>\$</u>	<u>\$</u>	<u>\$ 220,880</u>	<u>\$ 220,880</u>

See notes to required supplementary information.

CITY OF SOCORRO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual present comparisons of the legally adopted budget with actual data on a budgetary basis.

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

On or about October 1, the estimated resources is amended to include any unencumbered balances from the preceding year. The estimated resources may be further amended during the year if the City Council determines that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year ended 2018.

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.

(Continued)

CITY OF SOCORRO, TEXAS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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>\$215,063</u>
Special Revenue Fund:	
Public safety	\$ 97,311
General government	<u> 6,188</u>
Total	<u>\$103,499</u>

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

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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues/inflows:				
Federal and state grants	\$	\$	\$ 7,812,918	\$7,812,918
Investment income			1,243	1,243
Other income	_____	_____	<u>14,881</u>	<u>14,881</u>
Total revenues	_____	_____	<u>7,829,042</u>	<u>7,829,042</u>
Expenditures/outflows:				
Capital outlay	<u>4,100,000</u>	<u>4,100,000</u>	<u>11,204,272</u>	<u>7,104,272</u>
Excess of revenues over expenditures	<u>(4,100,000)</u>	<u>(4,100,000)</u>	<u>(3,375,230)</u>	<u>724,770</u>
Fund balance, beginning of the year	<u>4,074,742</u>	<u>4,074,742</u>	<u>4,074,742</u>	_____
Fund balance, end of year	<u><u>\$ (25,258)</u></u>	<u><u>\$ (25,258)</u></u>	<u><u>\$ 699,512</u></u>	<u><u>\$ 724,770</u></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, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$ 1,769,344	\$ 1,769,344	\$ 1,846,303	\$ 76,959
Total revenues	<u>1,769,344</u>	<u>1,769,344</u>	<u>1,846,303</u>	<u>76,959</u>
Expenditures/outflows:				
Principal	955,000	955,000	955,000	
Interest	<u>814,344</u>	<u>814,344</u>	<u>814,343</u>	<u>1</u>
Total expenditures	<u>1,769,344</u>	<u>1,769,344</u>	<u>1,769,343</u>	<u>1</u>
Excess of revenues over expenditures			76,960	76,960
Fund balance, beginning of the year	<u>221,054</u>	<u>221,054</u>	<u>221,054</u>	
Fund balance, end of year	<u>\$ 221,054</u>	<u>\$ 221,054</u>	<u>\$ 298,014</u>	<u>\$ 76,960</u>

See independent auditors' report.

AUDITORS' SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Socorro, Texas as of and for the year ended September 30, 2018, 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 11, 2019.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Socorro, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Socorro, Texas' internal control.

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

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

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, and 2018-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Socorro, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002 and 2018-004 .

City of Socorro, Texas' Response to Findings

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

Purpose of this Report

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

SBNG, PC

El Paso, Texas
June 11, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE AND THE STATE OF TEXAS SINGLE AUDIT CIRCULAR**

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

Report on Compliance for Each Major Federal Program

We have audited City of Socorro, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of City of Socorro, Texas' major federal and state programs for the year ended September 30, 2018. City of Socorro, Texas' major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of Socorro, Texas' major federal and state programs based on our audit of the types of compliance requirements referred to above. 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); the *State of Texas Uniform Grant Management Standards* (UGMS); and the *State of Texas Single Audit Circular*. Those standards, the Uniform Guidance, UGMS and the *State of Texas Single Audit Circular* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about City of Socorro, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of City of Socorro, Texas' compliance.

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

Opinion on Each Major Federal Program

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 and state programs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, UGMS and the *State of Texas Single Audit Circular* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on each major federal and state program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

Management of City of Socorro, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Socorro, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, UGMS and the *State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Socorro, Texas' 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 or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 or state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state 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.

(Continued)

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

Report on Internal Control over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002, that we consider to be material weaknesses.

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

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, UGMS and the *State of Texas Single Audit Circular*. Accordingly, this report is not suitable for any other purpose.

SBNG, PC

El Paso, Texas
June 11, 2019

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

Year Ended September 30, 2018

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Contract Period	Award Amount	Federal / State Expenditures
FEDERAL EXPENDITURES					
U.S. Department of Transportation					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Reconstruction Cluster					
Reconstruction and widen Horizon/Buford Road - 001	20.205	8056-24-001	Unknown	\$ 3,660,087	\$ 3,660,087
Reconstruction and widen Horizon/Buford Road - 003	20.205	8056-24-003	Unknown	\$ 2,910,300	<u>2,910,300</u>
Total Highway Planning and Construction Cluster					<u>6,570,387</u>
Total 20.205					<u>6,570,387</u>
Total U.S. Department of Transportation					<u>6,570,387</u>

(Continued)

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

Year Ended September 30, 2018

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Contract Period	Award Amount	Federal/ State Expenditures
FEDERAL EXPENDITURES (CONTINUED)					
U.S. Department of Homeland Security					
<i>Passed through Office of the Governor</i>					
Operation Stonegarden - FY2015	97.067	3007201	10/1/15 - 10/30/17	\$ 50,603	\$ 1,336
Operation Stonegarden - FY2016	97.067	3007202	11/1/16 - 8/31/18	\$ 41,871	41,871
Operation Stonegarden - FY2017	97.067	3007203	3/1/18 - 5/31/19	\$ 49,717	10,426
State Homeland Security Program - EOC	97.067	3562001	9/1/18 - 8/31/19	\$ 50,000	
State Homeland Security Program - Training	97.067	3660901	9/1/18 - 8/31/19	\$ 12,400	_____
Total 97.067					<u>53,633</u>
Total U.S. Department of Homeland Security					<u>53,633</u>
U.S. Department of Interior					
<i>Passed through Texas Historical Commission</i>					
Historic Preservation Fund Grants-In-Aid: Rio Vista Farm Complex Preservation and Rehabilitation	15.904	TX-17-021	4/14/17 - 12/31/18	\$ 30,000	<u>\$ 30,000</u>
Total 15.904					<u>30,000</u>
Total U.S. Department of Interior					<u>30,000</u>

(Continued)

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

Year Ended September 30, 2018

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Contract Period	Award Amount	Federal/ State Expenditures
FEDERAL EXPENDITURES (CONTINUED)					
U.S. Executive Office of the President					
<i>Passed through Office of National Drug Control Policy</i> High Intensity Drug Trafficking Areas (HIDTA)	95.001	G17SW0018A	01/01/17 - 12/31/18	\$ 11,110	<u>\$ 11,110</u>
Total 95.001					<u>11,110</u>
Total U.S. Executive Office of the President					<u>11,110</u>
U.S. Department of Housing and Urban Development					
<i>Passed through Texas Department of Agriculture</i> CDBG Entitlement Grants Cluster	14.228	7215479	10/15/15 - 10/14/17	\$ 410,914	<u> </u>
Total 14.228					<u> </u>
Total U.S. Department of Housing and Urban Development					<u> </u>
Total federal expenditures					<u>6,665,130</u>

(Continued)

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

Year Ended September 30, 2018

Program Title	Federal CFDA Number	Agency or Pass-Through Number	Contract Period	Award Amount	Federal/ State Expenditures
STATE EXPENDITURES					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Reconstruction Cluster					
Reconstruction and widen Horizon/Buford Road - 001	State	8056-24-001	Unknown	\$ 484,956	\$ 484,956
Reconstruction and widen Horizon/Buford Road - 003	State	8056-24-003	Unknown	\$ 727,575	<u>727,575</u>
Total Highway Planning and Reconstruction Cluster					<u>1,212,531</u>
<i>Passed through Office of the Governor</i>					
Local Border Security Program (LBSP -18)	State	3000903	9/1/17 - 8/31/18	\$ 44,918	44,682
Local Border Security Program (LBSP -19)	State	3000904	9/1/18 - 8/31/19	\$ 54,000	<u> </u>
Total Local Border Security Program					<u>44,682</u>
Law Enforcement Officer Standards and Education Grant	State	Unknown	10/1/17 - 9/30/18	\$ 2,425	<u>2,425</u>
Total state expenditures					<u>1,259,638</u>
Total federal and state expenditures					<u>\$ 7,924,768</u>

See notes to schedule of expenditures of federal and state awards.

CITY OF SOCORRO, TEXAS

**NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AND STATE AWARDS**

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 and State 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 and State Awards is prepared using the accrual basis of accounting.

Sub-recipients – There were no sub-recipients of the Federal and State Awards received by City of Socorro, Texas for the year ended September 30, 2018.

In-Kind Award Reporting – Expenditures of the federal award for the Reconstruction and Widening of Horizon/Buford Road Project received under the Highway Planning and Reconstruction Cluster are composed entirely of in-kind awards provided by the United States Department of Transportation and the Texas Department of Transportation, the pass-through agency. Federal expenditures for this award are managed by the pass-through agency and are used in the design, construction and supervision of improvements of a major road within the City's limits. The City is responsible for making matching payments to the pass-through agency for design, engineering, construction, purchase of land, utilities relocation and supervision at various phases of the project. Total matching payments provided by the City to the pass-through agency from inception of the project through September 30, 2018 amount to \$1,748,424. Total federal awards expended by the pass-through agency from inception of the project through September 30, 2018 amount to \$6,570,387. Total matching funds provided by the pass-through agency amounted to \$1,212,531 at September 30, 2018. The City's policy is to recognize the federal and state funds used for this project as an in-kind award on the basis of historical cost, as reported by the pass-through agency to the City.

Indirect Cost Rate – The City has not been required to make an election to use the 10% de minimis indirect cost rate, as none of its federal awards received in the fiscal year ended September 30, 2018, or previous years, reimburse indirect expenses.

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2018

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of City of Socorro, Texas.
2. Material weaknesses were reported in the audit of the financial statements of City of Socorro, Texas as reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There are instances of non-compliance material to the financial statements of City of Socorro, Texas, which are required to be reported in accordance with *Government Auditing Standards*.
4. Material weaknesses in internal control over major federal and state award programs were disclosed by the audit as reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and the *State of Texas Single Audit Circular*.
5. The auditors' report on compliance for the major federal and state award programs for City of Socorro, Texas expresses an unmodified opinion on all major federal and state programs.
6. There are audit findings that are required to be reported in accordance with the Uniform Guidance, UGMS and the *State of Texas Single Audit Circular*.
7. The program tested as a major federal program was Highway Planning and Construction Cluster, CFDA 20.205.
8. The program tested as a major state program was Highway Planning and Construction Cluster, Award no. 8056-24-001 and 8056-24-003.
9. The threshold used for distinguishing between Type A and B programs was \$750,000 for federal programs and \$300,000 for state programs.
10. City of Socorro, Texas did not qualify as a low-risk auditee, for either federal or state purposes.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-001:

**Tracking and Recording Infrastructure Grants from Texas Department
of Transportation**

**Highway Planning and Reconstruction Cluster
Matching**

20.205/State

Criteria: The City should develop a procedure to allow for tracking all outstanding construction projects, including those in which Federal and State Assistance is received. In particular, certain construction projects that are funded by the Texas Department of Transportation typically include a Federal funding component and require the City to make matching contributions. The City should track each of these projects in order to ensure that: 1) federal and state awards are correctly recorded in the accounting records, financial statements and schedule of expenditures of federal and state awards; 2) matching requirements are correctly reserved and appropriated on each fiscal year’s operating budget; and 3) the City’s financial statements correctly disclose pending commitments related to all construction projects.

Condition: During audit procedures performed for the area of capital assets, it was discovered that the City participated in two Local Transportation Advance Project Funding Agreements with the Texas Department of Transportation. Under each of these agreements (CSJ #8056-24-001 and CSJ 8056-24-003), the City was required to provide a match of 9.4% and 26.6%, respectively, for the total cost of renovations made to Horizon Road and Buford Road. The rest of the cost of each project was funded by a combination of Federal and State funds. Even though the funds were not passed-through the City, such awards meet the criteria established under Section 200.502 of the Uniform Grant Guidance for being reported as federal expenditures, and accordingly, should be recorded as inter-governmental support in the City’s financial statements. The City’s accounting records did not reflect the receipt of the in-kind support related to the two TXDOT projects identified during our audit.

Cause: The City has not developed a policy to track the status of its existing Local Transportation Advance Project Funding Agreements with TXDOT. The City has not adopted a policy and procedure to ensure federal and state awards received from TXDOT in the form of in-kind assistance are correctly recorded in the general ledger.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-001 (Continued):

Effect: Audit adjustments were required to record the total amount of Federal and State support in the amount of \$7,782,918. The City was required to undergo a Federal Single Audit and a State Single audit as a result of recording the infrastructure awards on its financial statements. Further audit procedures revealed that at least two other TXDOT awards which were received prior to October 1, 2017, were not recorded in the financial statements (CJS #0924-06-395 and CJS#09-06-520). Restatement of \$385,092 for the October 1, 2017 opening balance in capital assets presented in the Statement of Net Position was required. The City is unable to adequately track and budget for matching requirements related to TXDOT grants.

Recommendation: The City’s Finance Director, Planning Director and Grants Supervisor should together develop a procedure that allows for monitoring all construction contracts in progress, including those that involve the participation of other governmental agencies. The Finance Director should include a procedure that allows for recording any in-kind assistance related to infrastructure on a regular basis, as well as identifying and budgeting for pending matching requirements. The management team should consult with external accountants, grant managers, or auditors, as considered necessary, to ensure reporting requirements for each interlocal agreement are correctly identified and followed.

Management’s Response: Management agrees with the Auditors’ recommendation. See corrective action plan.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-002:

**Procurement of Administrative Services used for Texas Department of Agriculture Grant
Community Development Block Grants 14.228
Allowable costs/Procurement**

Criteria: The City of Socorro is a sub-recipient of the Texas Community Development Block Grant (TxCDBG). The Federal award (Contract No. 7218460) is administered by the Texas Department of Agriculture, has a term beginning October 2015 and ending October 2017, and has a purpose of providing funds for the construction of flood and drainage improvements on the Sparks Arroyo. The City hired an external consulting firm to provide administrative services for the TxCDBG award. The grant terms require the City to send a written request for proposal (“RFP”) by email, fax or mail to a minimum of five potential grant administration firms in order to comply with procurement standards established by the Uniform Guidance.

Condition: During a desk review performed by the Texas Department of Agriculture, the awarding agency was unable to determine if the City correctly followed the procurement requirements established in the grant’s project implementation manual in hiring an external firm to administer the TxCDBG grant. The City’s procurement records did not contain documentation of RFPs sent to grant administration firms nor did they contain a copy of the required RFP packet materials.

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

Effect: The Texas Department of Agriculture may impose various remedies, including but not limited to: terminating payments to the City, withhold payments pending correction of deficiencies, reduce grant awards, terminate current award, and withhold further awards. In addition, the Department may reduce administrative funds awarded under the contract up to 50%.

Questioned Costs: As a result of the failure to follow the procurement process required by *TxCDBG Project Implementation Manual*, we consider the total administrative expenses reimbursed by the award of \$31,775 to be likely questioned costs.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-002 (Continued):

Recommendation: We recommend that the Grants supervisor and the Finance Director review the City’s procurement policies procedures and ensure compliance with the procurement standards included in Sections 200.317 through 200.326 of the Uniform Guidance. In addition, we recommend that the City’s internal auditor develop a plan to review all current relationships with external contractors and ensure all relationships are in compliance with all procurement standards applicable to the City. We also recommend that the Grants Supervisor and Finance Director attend training specific to the Uniform Grant Management Standards, as well as review the Texas Uniform Grants Management Standards. Further, we recommend that the City no longer hire external consultants for the management of any federal or state grant award, and continue to maintain a permanent in-house position for a Grants Supervisor or equivalent.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-003:

Inconsistent Application of Generally Accepted Accounting Principles

Criteria: 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 are to be 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 in the accounting period in which the related fund liability is incurred, if measurable. Bond issuance costs, with the exception of prepaid bond insurance, are reported as expenses in the period incurred.

Condition: During our audit procedures for revenues and related receivables, we noted the City did not properly account for accounts receivable related to property taxes. In particular, the balance in accounts receivable for property taxes did not include the expected collections to be received in the 60 day window following fiscal year end. In addition, an expected grant receivable of \$30,000 was not included in the September 30, 2018 financial statements. Further, during the audit procedures performed for long-term debt, it was discovered the City had not correctly adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and incorrectly accounted for unamortized debt issuance costs as a reduction of net long-term liabilities in the Statement of Net Position.

Cause: Prior to October 1, 2017, the City’s financial statements were not correctly adjusted to reflect current application of GASB Statement No. 65, and to correct the year-to-year omission of the 60 days portion of the property taxes receivable balance.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-003(Continued):

Effect: The audited financial statements for the fiscal year ended September 30, 2018 include a restatement of the October 1, 2017 opening balance in net position. Audit adjustments were provided to management and recorded in the City’s accounting records to reflect the restatement of net position.

Recommendation: We recommend that the City consider consulting with its external auditor on a regular basis to obtain assistance in identifying and correctly adopting new accounting requirements issued by the Government Accounting Standards Board.

Management’s Response: Management agrees with the Auditors’ recommendation. See corrective action plan.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-004

Use of External Consultant for the Administration of Texas Department of Agriculture Grant

Criteria: The City of Socorro is a sub-recipient of the Texas Community Development Block Grant. The Federal award (Contract No. 7218460) is administered by the Texas Department of Agriculture. Among various requirements established in the award contract’s “Section 7 – Administrative Requirements,” the City is required to provide access to its books and records pertaining to the administration of grant funds to any state office requesting an audit or desk review. In addition, the City is required to follow requirements included under the *TxCDBG Project Implementation Manual* pertaining to the certification of wage rates and labor classifications for all wages necessary to complete the construction phase of the project (Davis-Bacon Act). The City is also required to conduct an environmental review of the project in accordance with U.S. Housing and Urban Development (“HUD”) regulations. The City hired an external consultant for the purpose of administering this award.

Condition: The City failed to respond to a request for desk review issued by the Texas Department of Agriculture on January 31, 2018. The original deadline was February 6, 2018. Upon the original failure to respond to this request, an automatic extension through February 21, 2018 was issued. Subsequent notice of default was issued on February 22, 2018, which suspended reimbursement of all program expenses, and requested a response date no later than March 9, 2018. No further action was conducted until October 23, 2018, when the Texas Department of Agriculture issued a notice of a new grant award to the City, but requested completion of the pending submission of grant documents for contract No. 7218460 within 90 days. The City provided a response and submitted the required documentation available on February 7, 2019. The desk review was completed on April 3, 2019, and found that the City did not comply in part with Davis Bacon Act requirements and did not perform the required environmental review in accordance with HUD regulations.

(Continued)

CITY OF SOCORRO, TEXAS

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

Year Ended September 30, 2018

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

Finding 2018-004 (Continued):

Cause: The City of Socorro hired an external consulting agency for the purpose of administering contract No. 7218460, who failed to correctly and completely respond to the request for desk review within the original deadline and the extended deadline. No further follow up by City personnel occurred until October 2018. The City’s external consultant also failed to require its general contractor to provide time cards for all labor used in the construction of the project that included an original signature of the certifying owner or officer. Rather, the general contractor provided timecards that included a signature stamp, which is not sufficient to meet the requirements of the U. S. Department of Labor, HUD and the *TxCDBG Project Implementation Manual*. As it pertains to the environmental review required by HUD, the City did not consult with the eight Native American tribes within El Paso County regarding tribal interests in sites that contain historic properties, nor did the City provide all required public notices regarding the proposed project activities on the historic site.

Effect: The City is not in compliance with Section 7 of its grant award contract with the Texas Department of Agriculture, the Davis Bacon Act, HUD regulations pertaining environmental reviews and the *Historic Preservation Act*. The Texas Department of Agriculture may impose various remedies, including but not limited to: terminate payments to the City, withhold payments pending correction of deficiencies, reduce grant awards, terminate current award, and withhold further awards. In addition, the Department may reduce administrative funds awarded under the contract up to 50%.

Recommendation: We recommend that the Grants Supervisor immediately implements the proposed resolutions included in the desk review report issued by Texas Department of Agriculture, which include requesting signed time cards from the general contractor used for the project, contacting the required Native American tribes to complete the environmental report, and attending training regarding HUD environmental reviews. We recommend that the Grants Supervisor and the Finance Director continue to provide the proper follow up to grant No. 7218460 until the desk review is closed and the corrective action plan submitted to the awarding agency is approved. We recommend that the grant close out report be amended if necessary, and submitted immediately after the completion of the desk review. We also recommend that the Finance Director and the Grants Supervisor work together in developing a schedule of grant reporting requirements and together ensure proper follow up for all correspondence and requests issued by granting agencies.

(Continued)

CITY OF SOCORRO, TEXAS

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

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

Finding 2018-001: See page 54.

Finding 2018-002: See page 56.

See independent auditors' report.

Elia Garcia
Mayor

Rene Rodríguez
At-Large

Cesar Nevarez
District 1



Ralph Duran
District 2

Victor Perez
District 3/Mayor ProTem

Yvonne Colon-Villalobos
District 4

CITY OF SOCORRO, TEXAS

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended September 30, 2018

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

None.

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

None.

Elia Garcia
Mayor

Rene Rodríguez
At-Large

Cesar Nevarez
District 1



Ralph Duran
District 2

Victor Perez
District 3/Mayor ProTem

Yvonne Colon-Villalobos
District 4

CITY OF SOCORRO, TEXAS

CORRECTIVE ACTION PLAN

Year Ended September 30, 2018

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

Management's view: We are in agreement with the auditors' findings and recommendations. Unfortunately the billing for this project occurred at a time when most of the principals at the inception of this project were no longer employed or serving in an official capacity. As a result the billing was quite confusing and was frankly misunderstood as to what was left to be recorded to complete the project.

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

Anticipated correction date: This will begin in the quarter ending June 30, 2019.

Responsible official: City Manager (Adriana Rodarte), City Planner (Michael Medina), Finance Director (Charles Casiano)

CITY OF SOCORRO, TEXAS

**CORRECTIVE ACTION PLAN
(CONTINUED)**

Year Ended September 30, 2018

Finding 2018-002:

Procurement of Administrative Services used for Texas Department of Agriculture Grant

Management's view: We are in agreement with the auditors' findings and recommendations. Although the City contracted an external consulting firm specifically to provide administrative services for TxCDBG Contract No. 7215479, the City is ultimately responsible for ensuring compliance with all state and federal regulations. Prior to July 31, 2018, the City did not have an in-house grants administrator on staff to ensure the appropriate TxCDBG program procurement processes were followed and to verify project compliance with all state and federal regulations. The City relied solely on the expertise of an external consultant to document TxCDBG program compliance with little to no oversight. The new in-house Grants Coordinator has since secured the TxCDBG Administrator Certification and is now responsible for overseeing any future grant administration contracts and ensuring all TxCDBG program requirements are followed. The City will fulfill all TxCDBG Program requirements and document evidence of compliance for the procurement of administration services for the new TxCDBG Contract No. 7218460 and for any future federal awards.

Proposed corrective action:

- The City's Grants Coordinator, Finance Director, and City Manager will hold a Grant Kick-Off meeting within thirty (30) days of any new TxCDBG grant contract execution and will review all contractual obligations of the new contract signed to include performance statements, budgets, implementation schedules, special conditions, and applicable laws and regulations.
- In addition, the City's Grants Coordinator and Finance Director will further review the Financial Management uniform requirements in 2 CFR Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," as described in 24 CFR 570.502, and, to the extent applicable, the standards promulgated by the Office of the Comptroller under the Uniform Grant and Contract Management Act (Tex. Gov't. Code Chapter 783, referred to as "UGCMS").
- To ensure that all TxCDBG Program requirements are met, including those related to competitive procurement procedures, the City's in-house Grants Coordinator will attend the annual TxCDBG Certified Administrator training and will forward a copy of this certification to the Human Resources Director for recordkeeping. The Grants Coordinator will ensure that the appropriate competitive procurement procedures are followed for all future TxCDBG Contract awards as per the TxCDBG Implementation Manual, and retain all records documenting proof of having followed the appropriate procurement process in the project file.
- Furthermore, the City's Grants Coordinator shall attend training specific to the Texas Uniform Grant and Contract Management Standards ("UGCMS") and/or 2 CFR Part 200, commonly known as the Uniform Grants Guidance ("UGG") for federal awards, on an annual basis.
- When an external consultant is hired for the administration of any federal or state grant award, the City's Grants Coordinator will review documentation of compliance with applicable state and federal laws and regulations prior to payment of any administration contract fees by the City.

(Continued)

CITY OF SOCORRO, TEXAS

**CORRECTIVE ACTION PLAN
(CONTINUED)**

Year Ended September 30, 2018

Finding 2018-002 (Continued):

Anticipated correction date: May 31, 2019

Responsible official: City Manager

(Continued)

CITY OF SOCORRO, TEXAS

**CORRECTIVE ACTION PLAN
(CONTINUED)**

Year Ended September 30, 2018

Finding 2018-003:

Inconsistent Application of Generally Accepted Accounting Principles

Management's view: Management agrees with the auditors' findings and recommendations. Management will review the application of GAAP as it evaluates and reviews the audit adjustments and why they were required.

Proposed corrective action: All year-end adjustments will be reviewed and evaluated to determine as they relate to the application of GAAP.

Anticipated correction date: FYE 2019 financial statements.

Responsible official: Finance Director.

(Continued)

CITY OF SOCORRO, TEXAS

**CORRECTIVE ACTION PLAN
(CONTINUED)**

Year Ended September 30, 2018

Finding 2018-004

Use of External Consultant for the Administration of Texas Department of Agriculture Grant

Management's view: Management Agrees. Although the City contracted an external consulting firm to provide administrative services for TxCDBG Contract No. 7215479, the burden of responsibility to produce evidence of compliance with all state and federal regulations ultimately falls on the City. The City's in-house Grants Coordinator has worked with the Finance Department, contractors, and subcontractors to cure all deficiencies and findings as identified in the Texas Department of Agriculture's ("TDA") desk review report. The City will continue to provide appropriate and timely follow up responses to TDA's requests for information regarding Contract No. 7215479 until the contract is administratively closed.

Proposed corrective action:

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

Anticipated correction date: Implemented.

Responsible official: City Manager