

State of
Texas
City of Socorro

Annual Financial Report
For the Year Ended September 30, 2015



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INTRODUCTORY SECTION

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STATE OF TEXAS
City of Socorro
Annual Financial Report
September 30, 2015
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STATE OF TEXAS
City of Socorro
Official Roster
September 30, 2015

<u>Name</u>	<u>City Council</u>	<u>Title</u>
Jesus Ruiz		Mayor
Rene Rodriguez		At Large Representative
Sergio Cox		District 1 Representative
Gloria Rodriguez		District 2 Representative
Victor Perez		District 3 Representative
Anthony Gandara		District 4 Representative
	<u>City Administration</u>	
Adriana Rodarte		City Manager
Jesse Scott		Interim CFO
Olivia Navarro		City Clerk

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Socorro, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
General Fund	Qualified
Special Revenue Fund	Qualified
Capital Projects Fund	Unmodified
Debt Service Fund	Unmodified

Basis for Qualified Opinions on the Governmental Activities, General Fund, and Special Revenue Fund

Because of the inadequacy of the municipal court accounting records and support for the municipal court warrant allowance, we were unable to obtain sufficient audit evidence for the activity related to the municipal court warrant receivable, and the related deferred inflows, due to State, and revenues as of September 30, 2015, and the changes in fund balance in the General Fund and Special Revenue Fund, as well as the change in net position of the governmental activities as of September 30, 2015.

Qualified Opinions

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions on the Governmental Activities, General Fund, and Special Revenue Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, general fund, and special revenue fund of the City, as of September 30, 2015, 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.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Capital Projects Fund and Debt Service Fund of the City, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* listed as Supporting Schedules I and II on pages 48 and 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basis 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 proved us with sufficient evidence to express an opinion or provide any assurance.

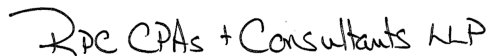
Management has omitted the *Management’s Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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 that missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the City’s basic financial statements that collectively comprise the City’s basic financial statements. The introductory section and Supporting Schedules III and IV, on pages 52 and 53, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Supporting Schedules III and IV 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 the auditing standards generally accepted in the United States of America. In our opinion, the Supporting Schedules III and IV are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

A handwritten signature in black ink that reads "RPC CPAs + Consultants LLP". The signature is written in a cursive, flowing style.

RPC CPAs + Consultants, LLP
El Paso, Texas
July 6, 2016

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**BASIC
FINANCIAL STATEMENTS**

STATE OF TEXAS
City of Socorro
Statement of Net Position
September 30, 2015

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 3,817,182
Investments	235,102
Receivables:	
Property taxes	1,295,078
Other taxes	413,645
Due from other governments	211,062
Other receivables, net	136,741
Other assets	5,000
Prepaid expenses	9,564
Inventory	7,155
	<hr/>
<i>Total current assets</i>	6,130,529
	<hr/>
Noncurrent assets	
Restricted cash and cash equivalents	82,234
Unspent bond proceeds	7,821,076
Bond underwriter discount (net of accumulated amortization of \$20,432)	182,613
Capital assets, net of accumulated depreciation	19,855,513
	<hr/>
<i>Total noncurrent assets</i>	27,941,436
	<hr/>
<i>Total assets</i>	\$ 34,071,965
	<hr/> <hr/>

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

	Governmental Activities
Liabilities	
Current liabilities	
Accounts payable	\$ 559,985
Accrued payroll	224,215
Accrued expenses	20,622
Accrued interest	77,119
Accrued compensated absences	67,051
Current portion of bonds payable	900,000
	<hr/>
<i>Total current liabilities</i>	1,848,992
	<hr/>
Noncurrent Liabilities	
Bonds payable	23,110,000
Bond premium (net of accumulated amortization of \$151,631)	953,578
	<hr/>
<i>Total noncurrent liabilities</i>	24,063,578
	<hr/>
<i>Total liabilities</i>	25,912,570
	<hr/>
Net position	
Net investment in capital assets	2,727,272
Restricted for:	
Debt service	447,142
Capital projects	7,652,724
Special revenue	250,695
Unrestricted	(2,918,438)
	<hr/>
<i>Total net position</i>	8,159,395
	<hr/>
<i>Total liabilities and net position</i>	\$ 34,071,965
	<hr/> <hr/>

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STATE OF TEXAS
City of Socorro
Statement of Activities
For the Year Ended September 30, 2015

Exhibit A-2

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government				
General government	\$ 1,778,409	\$ -	\$ 214,507	\$ (1,563,902)
Public works	1,718,532	-	-	(1,718,532)
Municipal court	275,960	416,823	-	140,863
Public safety	2,701,223	-	89,294	(2,611,929)
Planning/ zoning	653,477	412,891	-	(240,586)
Public health	557,652	-	-	(557,652)
Special projects	16,936	-	-	(16,936)
Rio Vista Community Center	84,143	-	-	(84,143)
Community and economic development	830,889	-	-	(830,889)
Interest on long-term debt	975,676	-	-	(975,676)
<i>Total governmental activities</i>	<u>\$ 9,592,897</u>	<u>\$ 829,714</u>	<u>\$ 303,801</u>	<u>(8,459,382)</u>

General Revenues:

Taxes	
Property taxes, levied for general purpose	3,904,593
Property taxes, levied for debt service	1,736,165
Sales taxes	1,794,242
Franchise taxes, for general purpose	430,756
Franchise taxes, for public, educational and government purpose	14,653
Investment income	5,328
Miscellaneous revenue	48,683
	<u>7,934,420</u>
Total general revenues and transfers	
	<u>7,934,420</u>
Change in net position	(524,962)
Net position - beginning as originally stated	9,823,659
Net position - restatement (note 16)	<u>(1,139,302)</u>
Net position - as restated	<u>8,684,357</u>
Net position - ending	<u>\$ 8,159,395</u>

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

STATE OF TEXAS

City of Socorro
Balance Sheet
Governmental Funds
September 30, 2015

	General Fund	Special Revenue Fund
<i>Assets</i>		
Cash and cash equivalents	\$ 3,750,819	\$ 66,363
Investments	235,102	-
Receivables:		
Property taxes	914,775	-
Other taxes	413,645	-
Due from other governments	-	211,062
Other receivables, net	117,141	19,600
Inventory	7,155	-
Prepaid expenses	2,848	6,716
Due from other funds	42,807	114,903
<i>Total assets</i>	<u>\$ 5,484,292</u>	<u>\$ 418,644</u>
<i>Liabilities, deferred inflows of resources, and fund balances</i>		
<i>Liabilities</i>		
Accounts payable	\$ 260,273	\$ 108,087
Accrued payroll	207,160	17,055
Accrued expenses	20,622	-
Due to other funds	122,781	42,807
<i>Total liabilities</i>	<u>610,836</u>	<u>167,949</u>
<i>Deferred inflows of resources</i>		
Unavailable revenue - property tax	645,295	-
Unavailable revenue - municipal court warrants	116,116	-
<i>Total deferred inflows of resources</i>	<u>761,411</u>	<u>-</u>
<i>Fund balances</i>		
Nonspendable		
Inventory	7,155	-
Prepaid expenses	2,848	6,716
Spendable		
Restricted for:		
Special revenue projects-grants	-	243,979
Capital projects	-	-
Debt service	-	-
Committed to:		
Minimum fund balance	1,220,313	-
Unassigned	2,881,729	-
<i>Total fund balances</i>	<u>4,112,045</u>	<u>250,695</u>
<i>Total liabilities, deferred inflows of resources, and fund balances</i>	<u>\$ 5,484,292</u>	<u>\$ 418,644</u>

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

Capital Projects Fund	Debt Service Fund	Total
\$ 7,821,076	\$ 82,234	\$ 11,720,492
-	-	235,102
-	380,303	1,295,078
-	-	413,645
-	-	211,062
-	-	136,741
-	-	7,155
-	-	9,564
23,273	-	180,983
<u>\$ 7,844,349</u>	<u>\$ 462,537</u>	<u>\$ 14,209,822</u>
\$ 191,625	\$ -	\$ 559,985
-	-	224,215
-	-	20,622
-	15,395	180,983
<u>191,625</u>	<u>15,395</u>	<u>985,805</u>
-	268,271	913,566
-	-	116,116
<u>-</u>	<u>268,271</u>	<u>1,029,682</u>
-	-	7,155
-	-	9,564
-	-	243,979
7,652,724	-	7,652,724
-	178,871	178,871
-	-	1,220,313
-	-	2,881,729
<u>7,652,724</u>	<u>178,871</u>	<u>12,194,335</u>
<u>\$ 7,844,349</u>	<u>\$ 462,537</u>	<u>\$ 14,209,822</u>

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STATE OF TEXAS
City of Socorro
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2015

Exhibit B-1
Page 2 of 2

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

Fund balances - total governmental funds	\$ 12,194,335
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds	19,855,513
Deposit on land purchase	5,000
Property taxes not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities	913,566
Municipal court warrants not collected within sixty days after year end are not considered "available" revenues and are considered to be unavailable revenue in the fund financial statements, but are considered revenue in the Statement of Activities	116,116
Liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Accrued interest payable	(77,119)
Accrued compensated absences	(67,051)
Bond underwriter discount, net	182,613
Bond premium, net	(953,578)
Bonds payable	<u>(24,010,000)</u>
Net position - governmental activities	<u>\$ 8,159,395</u>

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

STATE OF TEXAS
City of Socorro
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>
<i>Revenues:</i>			
Taxes:			
Property	\$ 4,353,228	\$ -	\$ -
Sales	1,794,242	-	-
Franchise	430,756	14,653	-
Planning and zoning fees	412,891	-	-
Municipal court	586,722	8,466	-
Intergovernmental:			
Federal operating grants	-	36,178	-
State operating grants	-	267,623	-
Investment income	832	-	4,496
Miscellaneous	40,395	8,273	15
<i>Total revenue</i>	<u>7,619,066</u>	<u>335,193</u>	<u>4,511</u>
<i>Expenditures:</i>			
Current:			
General government	1,141,391	215,097	248,559
Public works	1,255,364	-	-
Municipal court	273,392	-	-
Public safety	2,558,651	96,852	-
Planning/ zoning	628,380	-	-
Public health	557,652	-	-
Special projects	-	16,936	-
Rio Vista Community Center	-	-	30,592
Community and economic development	826,259	-	-
Capital outlay	79,324	-	3,670,763
Debt service:			
Principal	-	-	-
Interest	-	-	-
<i>Total expenditures</i>	<u>7,320,413</u>	<u>328,885</u>	<u>3,949,914</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>298,653</u>	<u>6,308</u>	<u>(3,945,403)</u>
<i>Other financing sources (uses)</i>			
Transfers in	-	315	-
Transfers (out)	-	-	(315)
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>315</u>	<u>(315)</u>
<i>Net change in fund balances</i>	298,653	6,623	(3,945,718)
<i>Fund balances - beginning as originally stated</i>	4,167,688	396,322	11,372,176
<i>Fund balance - restatement (note 16)</i>	<u>(354,296)</u>	<u>(152,250)</u>	<u>226,266</u>
<i>Fund balance - beginning</i>	<u>3,813,392</u>	<u>244,072</u>	<u>11,598,442</u>
<i>Fund balances - end of year</i>	<u>\$ 4,112,045</u>	<u>\$ 250,695</u>	<u>\$ 7,652,724</u>

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

<u>Debt Service Fund</u>	<u>Total</u>
\$ 1,807,108	\$ 6,160,336
-	1,794,242
-	445,409
-	412,891
-	595,188
-	36,178
-	267,623
-	5,328
-	48,683
<u>1,807,108</u>	<u>9,765,878</u>
-	1,605,047
-	1,255,364
-	273,392
-	2,655,503
-	628,380
-	557,652
-	16,936
-	30,592
-	826,259
-	3,750,087
840,000	840,000
<u>977,037</u>	<u>977,037</u>
<u>1,817,037</u>	<u>13,416,249</u>
<u>(9,929)</u>	<u>(3,650,371)</u>
-	315
-	<u>(315)</u>
-	<u>-</u>
(9,929)	(3,650,371)
90,339	16,026,525
<u>98,461</u>	<u>(181,819)</u>
<u>188,800</u>	<u>15,844,706</u>
<u>\$ 178,871</u>	<u>\$ 12,194,335</u>

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STATE OF TEXAS
City of Socorro
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2015

Exhibit B-2
Page 2 of 2

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

Net change in fund balances - total governmental funds	\$ (3,650,371)
--	----------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital expenditures	3,750,086
Depreciation expense	(713,624)

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 and municipal court	(697,942)
---	-----------

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

Current year amortization of bond premium	63,433
Current year amortization of bond underwriter discount	(12,097)
Current year amortization on bond insurance premium	(8,335)
Increase in accrued compensated absences	(67,051)
Increase in accrued interest payable	(29,061)
Principal payments on bonds	840,000

Change in net position of governmental activities	<u>\$ (524,962)</u>
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The accompanying notes are an integral part of these financial statements.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies

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

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

A. Financial Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, No. 39, and No. 61. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

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

B. Government-wide and fund financial statements

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

The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies (Continued)

B. Government-wide and fund financial statements (Continued)

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements of time, reimbursement and contingencies imposed by the provider are met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Debt Service Fund is used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in the future years are also reported in the debt service fund.

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

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

D. Assets, Liabilities and Net Position or Equity

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

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

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

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

The City is required by Governmental Code Chapter 2256, Public Funds Investment Act (PFIA), to adopt, implement, and publicize an investment policy. That policy must address safety of principal and liquidity, portfolio diversification, allowable investments, acceptable risk levels, expected rates of return, maximum allowable stated maturity of portfolio investments, maximum average dollar weighted maturity allowed based on the stated maturity date for the portfolio, investment staff quality and capabilities, and bid solicitation preferences for Certificate of Deposit.

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 collectible over time. Accounts deemed uncollectible are written off at that time. The City is in the process of evaluating their allowance policy in order to adequately reflect the receivables they deem to be collectible. In the government-wide and governmental fund financial statements, delinquent property taxes are recorded as revenue when levied net of estimated refunds and uncollectable amounts.

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

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

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

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

Impairment of assets takes place when the fair value of the long-term asset is below its book (carrying) value. The impairment loss is recorded only when the carrying value of the asset is not recoverable and exceeds its fair value. The City does not have any impaired assets as of September 30, 2015.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings, structures and improvements	39-40
Machinery and equipment	5
Furniture, fixtures and equipment	5-7
Vehicles	5
Software	3
Infrastructure	22-45
Leasehold improvements	39

Accrued Expenses: Accrued expenses are comprised of the payroll expenditures based on amounts earned by the employees through September 30, 2015, along with applicable Nationwide Retirement Solution (NRS), FICA, and Medicare payable.

Compensated Absences: The City's leave policy allows paid time off to regular full time employees depending on length of service. Calculation is based on a "benefit year" which is the twelve-month period that begins when an employee starts earning paid time off. The maximum accrual to be carried-over to the next fiscal year is 40 hours (October 1 through September 30). Employees who exceed the 40 hours carry over to the next fiscal year will lose the excess accrued hours. Sick leave will not be paid out upon termination.

Long-term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. For bonds issued after GASB 34 was implemented, bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. For fund financial reporting, bond premiums and discounts, are recognized in the period the bonds are issued. Bond proceeds are reported as an other financing source, net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources: In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by a corresponding liability for deferred inflows of resources. The City has two types of items, which arise under the modified accrual basis of accounting that qualify for reporting in this category. Accordingly, these items, property taxes and municipal court warrants are reported only in the governmental funds balance sheet. This amounts is deferred and recognized as an inflow of resources in the period that the amounts become available. The City has recorded \$913,566 related to property taxes and \$116,116 related to municipal court warrants.

Deferred Compensation: All City employees are eligible to participate in the City's Deferred Compensation Plan (the "Plan") adopted under the provisions of the Internal Revenue Code 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The Plan is administered by Nationwide Retirement Solutions and is a defined contribution plan. Under the terms of the Plan, employees may contribute up to the 5% of their earnings into an annuity contract. The City matched 5% of the participants' contribution into the Plan. The City's contribution into the Plan for the fiscal year ended September 30, 2015 totaled \$50,148 and the employees contributed \$54,084.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

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

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

Restricted fund balance should be reported when constraints placed on the use of resources are either

- a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b) Imposed by law through constitutional provisions or enabling legislation.
- c) Enabling legislation, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

For committed fund balance, the City's highest level of decision-making authority is the City Council. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

For assigned fund balance, the City Council or the City Manager is authorized to assign amounts to a specific purpose. The authorization policy is in governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

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

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

Nonspendable Fund Balance: At September 30, 2015, the nonspendable fund balance in the funds was made up of inventory and prepaid expenses in the amount \$7,155 and \$9,564, respectively, which are not in spendable form.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Position or Equity (Continued)

Restricted and Committed Fund Balance: At September 30, 2015, the restricted fund balance on the governmental funds balance sheet is made up of \$243,979 which is made up of grants and other City projects which funding was received for special purposes and \$7,652,724 which is made up various capital projects being constructed in the City from 2012 to 2015, and \$178,871 which is restricted for debt service.

Minimum Fund Balance Policy: In fiscal year 2011, the City adopted a minimum fund balance policy for the General Fund. The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 16.67% of expenditures. The City considers a balance of less than 8.34% to be cause for concern, barring unusual or deliberate circumstances. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance. Minimum fund balance for the general fund as of September 30, 2015 is \$1,220,313.

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

- a. Net investment in capital assets: Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The City had \$7,652,724 in unspent bond proceeds as of September 30, 2015.
- b. Restricted net position: Consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position: All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

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

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

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

The budgetary process is prescribed by provisions of Title 4, Chapter 102 of the Local Government Code of the Texas legislature and entails 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.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 2. Stewardship, Compliance and Accountability (Continued)

Budgetary Information (Continued)

The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified by resolution of the City Council. All funds are required to be budgeted and appropriated. The level of budgetary control is at the department level for the City. Any budgetary modifications at this level may only be made by resolution of the City Council. Under the City's By-Laws, revenues not specifically related to a particular fund shall be deposited into the City's General Fund. Monies can only be transferred from the General Fund by resolution of the City Council.

As part of the City's budgetary process, the City Council approves the official estimated resources. The official estimated resources states the projected revenue of each fund. Prior to September 30, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the official estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about October 1, the estimated resources is amended to include any unencumbered balances from the preceding year. The estimated resources may be further amended during the year if the City Council determines that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year ended 2015.

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.

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

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

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 3. Deposits

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

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

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires all deposits in excess of \$100,000 to be 102% collateralized by obligations of the United States or its agents or instrumentalities. At September 30, 2015, none of the City's bank balance of \$11,751,858 was exposed to custodial credit risk. None of the City's deposits were uninsured at September 30, 2015.

	<u>Wells Fargo</u>
Amount of deposits	\$ 11,751,858
FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	<u>11,501,858</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the City's name	<u>11,501,858</u>
Uninsured and uncollateralized	<u>\$ -</u>

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

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 3. Deposits (Continued)

Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents per Exhibit A-1	\$ 3,817,182
Restricted cash and cash equivalents per Exhibit A-1	82,234
Unspent bond proceeds	7,821,076
Investments per Exhibit A-1	<u>235,102</u>
 Total cash, cash equivalents, and investments	 <u>11,955,594</u>
 Add: outstanding checks	 131,168
Less: deposits in transit	(98,552)
Less: petty cash	(1,250)
Less: investment in 1st National CD	(88,199)
Less: investment in Logic	<u>(146,903)</u>
 Bank balance of deposits	 <u><u>\$ 11,751,858</u></u>

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

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

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

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 4. Receivables

Governmental fund receivables as of September 30, 2015, are as follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Property taxes	\$ 914,775	\$ -	\$ 380,303	\$ 1,295,078
Other taxes:				
Sales taxes	333,246	-	-	333,246
Franchise taxes	80,399	-	-	80,399
Due from other governments	-	211,062		211,062
Other Receivables				-
Municipal Court Warrants	3,733,979	512,892	-	4,246,871
Miscellaneous	1,025	3,655	-	4,680
Less: Allowance for doubtful accounts related to Municipal Court Warrants	(3,617,863)	(496,947)	-	(4,114,810)
Total other receivables	<u>117,141</u>	<u>19,600</u>	<u>-</u>	<u>136,741</u>
Total net receivables	<u>\$ 1,445,561</u>	<u>\$ 230,662</u>	<u>\$ 380,303</u>	<u>\$ 2,056,526</u>

In accordance with GASB No. 33, property tax revenues in the amount of \$913,566 and municipal court warrants revenues in the amount of \$116,116 that were not collected within the period of availability have been reclassified as deferred inflows in the governmental fund financial statements.

NOTE 5. Interfund Receivables, Payables, and Transfers

The City records temporary interfund receivables and payables to enable the funds to operate until reimbursements are received. The composition of interfund balances during the year ended September 30, 2015 is as follows:

Governmental Activities	Due from other funds	Due to other funds
General Fund	\$ 42,807	\$ 122,781
Special Revenue Fund	114,903	42,807
Capital Projects Fund	23,273	-
Debt Service Fund	<u>-</u>	<u>15,395</u>
Total	<u>\$ 180,983</u>	<u>\$ 180,983</u>

Net operating transfers made to close out fund and to supplement other funding sources in the normal course of operations, were as follows:

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

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 6. Capital Assets

The following is a summary of capital assets and changes occurring for governmental activities during the year ended September 30, 2015. Land is not subject to depreciation.

	Balance September 30, 2014	Additions	Deletions	Balance September 30, 2015
Capital assets not being depreciated:				
Land	\$ 1,649,165	\$ 461,234	\$ -	\$ 2,110,399
Construction in progress	1,661,387	2,173,461	(63,243)	3,771,605
Total capital assets not being depreciated	<u>3,310,552</u>	<u>2,634,695</u>	<u>(63,243)</u>	<u>5,882,004</u>
Capital assets being depreciated:				
Building, structures, and improvements	1,645,506	30,914	-	1,676,420
Machinery and equipment	1,640,948	299,315	-	1,940,263
Vehicles	1,538,542	66,688	-	1,605,230
Office furniture and equipment	416,177	12,720	-	428,897
Software	55,378	-	-	55,378
Infrastructure	18,616,912	768,998	-	19,385,910
Leasehold improvements	212,942	-	-	212,942
Total capital assets being depreciated	<u>24,126,405</u>	<u>1,178,635</u>	<u>-</u>	<u>25,305,040</u>
Total capital assets	<u>27,436,957</u>	<u>3,813,330</u>	<u>(63,243)</u>	<u>31,187,044</u>
Less accumulated depreciation:				
Building, structures, and improvements	454,892	42,079	-	496,971
Machinery and equipment	1,288,163	100,189	-	1,388,352
Vehicles	1,225,738	110,597	-	1,336,335
Office furniture and equipment	252,060	52,761	-	304,821
Software	55,378	-	-	55,378
Infrastructure	7,252,395	402,701	-	7,655,096
Leasehold improvements	89,281	5,297	-	94,578
Total accumulated depreciation	<u>10,617,907</u>	<u>713,624</u>	<u>-</u>	<u>11,331,531</u>
Total capital assets, net of depreciation	<u>\$ 16,819,050</u>	<u>\$ 3,099,706</u>	<u>\$ (63,243)</u>	<u>\$ 19,855,513</u>

Depreciation expense for the year ended September 30, 2015 was charged to the functions of the governmental activities as follows:

General government	\$ 22,037
Public works	463,168
Municipal court	2,568
Public safety	142,572
Planning/ zoning	25,097
Apodaca Community Center	4,630
Rio Vista Community Center	53,552
Total depreciation expense	<u>\$ 713,624</u>

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 7. Long-term Debt

During the year ended September 30, 2015, the following changes occurred in the liabilities reported in the government-wide statement of net position:

	<u>Balance</u> <u>September 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>September 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Bonds	\$ 24,850,000	\$ -	\$ 840,000	\$ 24,010,000	\$ 900,000
Bond Premiums	1,142,034	-	63,433	953,578	63,433
Bond Discounts	(194,710)	-	(12,097)	(182,613)	12,097
Compensated Absences	65,178	143,267	141,394	67,051	67,051
Total long-term debt	<u>\$ 25,862,502</u>	<u>\$ 143,267</u>	<u>\$ 1,032,730</u>	<u>\$ 24,848,016</u>	<u>\$ 1,042,581</u>

Bonds outstanding at September 30, 2015 consisted of the following:

In 2008, the City issued Combination Tax and Revenue Bonds, Series 2008. The original date of issue was September, 2008. Interest on the bonds ranges from 2.25% to 4.70% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2009. The balance due for this bond at September 30, 2015 is \$4,220,000. This bond matures September 2028.

In 2010, the City issued General Obligation Refunding Bonds, Series 2010 maturing March 2030. The proceeds of the Series 2010 bonds were used to refund a portion of the City's outstanding debt, including all of the maturities of the Series 1999 bonds, Series 2001 bonds, Series 2004 bonds and to pay the costs of issuing the Series 2010 bonds. This bond matures March 2024. The purpose of such refunding was to lower overall debt service requirements related to the Refunded Obligations. The Series 2010 bonds are dated October 14, 2010. Interest on the bonds, with a floor of 2.00% and a ceiling of 4.00%, is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2011. The balance due for this bond at September 30, 2015 is \$3,885,000.

In 2011, the City issued Combination Tax and Revenue Bonds, Series 2011. The original date of issue was September, 2011. Interest on the bonds ranges from 2.00% to 4.25% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2012. The balance due for this bond at September 30, 2015 is \$2,395,000. This bond matures March 2031.

In 2012, the City issued Combination Tax and Revenue Bonds, Series 2012. The original date of issue was August, 2012. Interest on the bonds ranges from 2.00% to 3.50% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2013. The balance due for this bond at September 30, 2015 is \$4,460,000. This bond matures March 2032.

In 2014, the City issued Combination Tax and Revenue Bonds, Series 2014. The original date of issue was July 2014. Interest on the bonds ranges from 2.00% to 5.00% and is payable semiannually on March 1 and September 1 of each year beginning March 1, 2015. The balance due for this bond at September 30, 2015 is \$9,050,000. This bond matures March 2034.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 7. Long-term Debt (Continued)

The annual requirements to amortize the Bonds Payable as of September 30, 2015, including interest payments is as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2016	\$ 900,000	\$ 913,417	\$ 1,813,417
2017	925,000	888,686	1,813,686
2018	955,000	862,136	1,817,136
2019	980,000	832,162	1,812,162
2020	1,015,000	798,894	1,813,894
2021-2025	5,680,000	3,389,770	9,069,770
2026-2030	6,930,000	2,143,502	9,073,502
2031-2034	6,625,000	635,495	7,260,495
	<u>\$ 24,010,000</u>	<u>\$ 10,464,062</u>	<u>\$ 34,474,062</u>

Operating Leases: There were no significant operating leases for the year ended September 30, 2015.

NOTE 8. Risk Management

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

During the fiscal year September 30, 2015, the City purchased commercial insurance with Texas Municipal League Intergovernmental Risk Pool to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage.

NOTE 9. Other Required Individual Fund Disclosures

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

A. Deficit fund balance of individual funds. There were no funds that reflected a deficit fund balance as of September 30, 2015.

B. Funds that exceeded approved budgetary authority for the year ended September 30, 2015:

General Fund	
Public works	\$ 58,763
Municipal court	24,325
Public health	73,373
Community and economic development	472,535
Special Revenue Fund	
Public safety	\$ 82,852
Special projects	16,936
Capital Projects Fund	
General government	\$ 248,559

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 9. Other Required Individual Fund Disclosures (Continued)

C. Designated cash appropriations in excess of available balance. The City did not have any funds in which designated cash appropriations were in excess of available balances for the year ended September 30, 2015.

NOTE 10. Joint Powers Agreements

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

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

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

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

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

NOTE 11. Contingent Liabilities

The City is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City and, therefore, no liability was accrued at September 30, 2015.

NOTE 12. Commitments

The City has various construction projects in process as of September 30, 2015. There are numerous contracts with material amounts committed for these projects; however, the amounts cannot be quantified by the City as of September 30, 2015.

NOTE 13. Restricted Net Position

The government-wide statement of net position reports \$8,350,561 of restricted net position, all of which is restricted by enabling legislation.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 14. Subsequent Events

The city entered into a General Obligation Refunding Bonds, Series 2016 in the amount of \$3,510,000. The closing date was in June 2016. The proceeds of this bond was to refinance the Combination Tax and Revenue Certificates of Obligation, Series 2008.

The date to which events occurring after September 30, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statement or disclosures is July 6, 2016, which is the date on which the financial statements were issued.

NOTE 15. Concentrations

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

NOTE 16. Restatements

Restatements for the year ended September 30, 2015 are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	
Restatement related to property tax revenue from the prior year	\$ 157,809	\$ -	\$ -	\$ 98,461	\$ 256,270	(1)
Restatement related to incorrectly recorded accounts payable in the prior year	-	-	226,266	-	226,266	(2)
Restatement related to incorrectly reported revenue related to the municipal court warrants	-	(152,250)	-	-	(152,250)	
Restatement to reduce revenue due to correction of accounting estimate related to municipal court warrants	(512,105)	-	-	-	(512,105)	
	<u>\$ (354,296)</u>	<u>\$ (152,250)</u>	<u>\$ 226,266</u>	<u>\$ 98,461</u>	<u>\$ (181,819)</u>	

Notes:

(1) Amounts received within 60 days of year end are considered revenue for the fund financails. For fiscal year ending September 30, 2014, the property tax received within 60 days was incorrectly listed.

(2) The City's accounts payable balances are not clearing out, as a result the prior year accounts payable balances included amounts that were deemed no longer due and payable.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 16. Restatements (Continued)

	<u>Governmental Activities</u>
Restatement to expense bond issuance costs incorrectly reported in the prior year	\$ (72,993)
Restatement related to property tax revenue from the prior year	256,270
Restatement related to incorrectly reported revenue related to the municipal court warrants	(152,250)
Restatement related to incorrectly recorded accounts payable in the prior year	226,266
Restatement to reduce revenue due to correction of accounting estimate related to municipal court warrants	<u>(1,396,595)</u>
	<u><u>\$ (1,139,302)</u></u>

NOTE 17. Subsequent Pronouncements

In February 2015, GASB Statement No. 72 *Fair Value Measurement and Application*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The City will implement this standard during the fiscal year ended September 30, 2016. The City is still evaluating how this pronouncement will affect the financial statements.

In June 2015, GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. Earlier application is encouraged. The City is still evaluating how this pronouncement will affect the City.

In June 2015, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued. Effective Date: The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. This pronouncement will not effect the City's financial statements.

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

In June 2015, GASB Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The City will implement this standard during the fiscal year ended September 30, 2016. The City does not expect the pronouncement to have a material effect on the financial statements.

In August 2015, GASB Statement No. 77 *Tax Abatement Disclosures*, was issued. Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. The City will implement this standard during the fiscal year ended September 30, 2017. The City is still evaluating how this pronouncement will effect the financial statements.

STATE OF TEXAS
City of Socorro
Notes to the Financial Statements
September 30, 2015

NOTE 17. Subsequent Pronouncements (Continued)

In December 2015, GASB Statement No. 78 *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued. Effective Date: The provision of this statement are effective for financial for periods beginning after December 15, 2015. Earlier application is encouraged. The City is still evaluating how this pronouncement will effect the financial statements.

In December 2015, GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*, was issued. Effective Date: The provision of this statement are effective for financial for periods beginning after June 15, 2015, except for the provision paragraphs 18, 19, 23-26 and 40, which are effective for financial for periods beginning after December 15, 2015. Earlier application is encouraged. The City is still evaluating how this pronouncement will effect the financial statements.

In January 2016, GASB Statement No. 80 *Blending Requirements for Certain Component Units*, an amendment to Certain Provisions of GASB Statement No. 14, was issued. Effective Date: The provision of this statement are effective for financial for periods beginning after June 15, 2016. Earlier application is encouraged. The City is still evaluating how this pronouncement will effect the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF TEXAS

Schedule I

City of Socorro

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
Taxes:				
Property	\$ 4,909,153	\$ 4,961,341	\$ 4,353,228	\$ (608,113)
Sales	1,600,000	1,700,000	1,794,242	94,242
Franchise	325,000	325,000	430,756	105,756
Planning and zoning fees	309,000	309,000	412,891	103,891
Municipal court	460,000	460,000	586,722	126,722
Investment income	1,200	1,200	832	(368)
Miscellaneous	12,000	12,000	40,395	28,395
<i>Total revenues</i>	<u>7,616,353</u>	<u>7,768,541</u>	<u>7,619,066</u>	<u>(149,475)</u>
<i>Expenditures:</i>				
Current:				
General government	2,146,681	2,119,615	1,141,391	978,224
Public works	1,118,395	1,196,601	1,255,364	(58,763)
Municipal court	247,260	249,067	273,392	(24,325)
Public safety	2,763,983	2,630,230	2,558,651	71,579
Planning/ zoning	603,146	628,856	628,380	476
Public health	466,000	484,279	557,652	(73,373)
Special projects	-	-	-	-
Rio Vista Community Center	-	-	-	-
Community and economic development	250,888	353,724	826,259	(472,535)
Capital outlay	16,000	106,169	79,324	26,845
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
<i>Total expenditures</i>	<u>7,612,353</u>	<u>7,768,541</u>	<u>7,320,413</u>	<u>448,128</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>4,000</u>	<u>-</u>	<u>298,653</u>	<u>298,653</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	(4,000)	-	-	-
<i>Total other financing sources (uses)</i>	<u>(4,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>298,653</u>	<u>298,653</u>
<i>Fund balance - beginning of year</i>	<u>-</u>	<u>-</u>	<u>4,167,688</u>	<u>4,167,688</u>
<i>Fund balance - restatement</i>	<u>-</u>	<u>-</u>	<u>(354,296)</u>	<u>(354,296)</u>
<i>Fund balance - as restated</i>	<u>-</u>	<u>-</u>	<u>3,813,392</u>	<u>3,813,392</u>
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,112,045</u>	<u>\$ 4,112,045</u>

See independent auditors' report.

STATE OF TEXAS
City of Socorro
Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Budgetary Basis) and Actual
For the Year Ended September 30, 2015

Schedule II

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
Taxes:				
Property	\$ 25,000	\$ 25,000	\$ -	\$ (25,000)
Sales	-	-	-	-
Franchise	16,000	16,000	14,653	(1,347)
Planning and zoning fees	-	-	-	-
Municipal count	-	-	8,466	8,466
Intergovernmental income:				
Federal operating grants	-	-	36,178	36,178
State operating grants	342,060	339,418	267,623	(71,795)
Investment income	-	-	-	-
Miscellaneous	15,000	15,000	8,273	(6,727)
<i>Total revenues</i>	<u>398,060</u>	<u>395,418</u>	<u>335,193</u>	<u>(60,225)</u>
<i>Expenditures:</i>				
Current:				
General government	1,351,974	302,638	215,097	87,541
Public works	-	-	-	-
Public safety	14,000	14,000	96,852	(82,852)
Planning/ zoning	-	-	-	-
Public health	-	-	-	-
Special projects	61,600	-	16,936	(16,936)
Community and economic development	-	-	-	-
Capital outlay	-	-	-	-
<i>Total expenditures</i>	<u>1,427,574</u>	<u>316,638</u>	<u>328,885</u>	<u>(12,247)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(1,029,514)</u>	<u>78,780</u>	<u>6,308</u>	<u>(72,472)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	1,029,514	(78,780)	-	78,780
Transfers in	-	-	315	315
Transfers (out)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>1,029,514</u>	<u>(78,780)</u>	<u>315</u>	<u>79,095</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>6,623</u>	<u>6,623</u>
<i>Fund balance - beginning of year</i>	-	-	396,322	396,322
<i>Fund balance - restatement</i>	-	-	(152,250)	(152,250)
<i>Fund balance - as restated</i>	-	-	244,072	244,072
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 250,695</u>	<u>\$ 250,695</u>

See independent auditors' report.

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SUPPLEMENTARY INFORMATION

STATE OF TEXAS

Schedule III

City of Socorro

Capital Projects Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Franchise	-	-	-	-
Planning and zoning fees	-	-	-	-
Municipal count	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
State operating grants	-	-	-	-
Investment income	-	-	4,496	4,496
Miscellaneous	-	-	15	15
<i>Total revenues</i>	<u>-</u>	<u>-</u>	<u>4,511</u>	<u>4,511</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	248,559	(248,559)
Public works	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Public health	-	-	-	-
Rio Vista Community Center	82,740	48,336	30,592	17,744
Community and economic development	-	-	-	-
Capital outlay	7,138,655	7,907,733	3,670,763	4,236,970
<i>Total expenditures</i>	<u>7,221,395</u>	<u>7,956,069</u>	<u>3,949,914</u>	<u>4,006,155</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(7,221,395)</u>	<u>(7,956,069)</u>	<u>(3,945,403)</u>	<u>4,010,666</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
Loan proceeds	7,221,395	7,956,069	-	(7,956,069)
Transfers (out)	-	-	(315)	(315)
<i>Total other financing sources (uses)</i>	<u>7,221,395</u>	<u>7,956,069</u>	<u>(315)</u>	<u>(7,956,384)</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>(3,945,718)</u>	<u>(3,945,718)</u>
<i>Fund balance - beginning of year</i>	-	-	11,372,176	11,372,176
<i>Fund balance - restatement</i>	-	-	226,266	226,266
<i>Fund balance - as restated</i>	-	-	11,598,442	11,598,442
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,652,724</u>	<u>\$ 7,652,724</u>

See independent auditors' report.

STATE OF TEXAS

Schedule IV

City of Socorro

Debt Service Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
Taxes:				
Property	\$ 1,817,037	\$ 1,817,037	\$ 1,807,108	\$ (9,929)
Sales	-	-	-	-
Franchise	-	-	-	-
Planning and zoning fees	-	-	-	-
Municipal court	-	-	-	-
Intergovernmental income:				
Federal operating grants	-	-	-	-
State operating grants	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
<i>Total revenues</i>	<u>1,817,037</u>	<u>1,817,037</u>	<u>1,807,108</u>	<u>(9,929)</u>
<i>Expenditures:</i>				
Current:				
General government	-	-	-	-
Public works	-	-	-	-
Municipal court	-	-	-	-
Public safety	-	-	-	-
Public health	-	-	-	-
Community and economic development	-	-	-	-
Debt Service:				
Principal	840,000	840,000	840,000	-
Interest	977,037	977,037	977,037	-
<i>Total expenditures</i>	<u>1,817,037</u>	<u>1,817,037</u>	<u>1,817,037</u>	<u>-</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>-</u>	<u>-</u>	<u>(9,929)</u>	<u>(9,929)</u>
<i>Other financing sources (uses)</i>				
Designated cash (budgeted increase in cash)	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net change in fund balance</i>	<u>-</u>	<u>-</u>	<u>(9,929)</u>	<u>(9,929)</u>
<i>Fund balance - beginning of year</i>	-	-	90,339	90,339
<i>Fund balance - restatement</i>	-	-	98,461	98,461
<i>Fund balance - as restated</i>	-	-	188,800	188,800
<i>Fund balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,871</u>	<u>\$ 178,871</u>

See independent auditors' report.