

City of Socorro, Texas

**Basic Financial Statements
Required Supplementary Information
and Supplementary Information
Year Ended September 30, 2006
and Independent Auditors' Report**

CITY OF SOCORRO, TEXAS
SEPTEMBER 30, 2006
TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statement of Net Assets	8
Statement of Activities	9
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statements of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to Financial Statements	14
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule - General Fund	26
Budgetary Comparison Schedule - Special Revenue Fund	28
Notes to Required Supplementary Information	29
Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31
SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule - Debt Service Fund	33
Budgetary Comparison Schedule - Capital Projects Fund	34



Strickler & Prieto, LLP

201 E Main Suite 500
El Paso Texas 79901
Tel. (915) 532-2901
Fax (915) 532-0807
www.cpa-sp.com

INDEPENDENT AUDITORS' REPORT

To Honorable Mayor Trini Lopez
and Members of City Council
City of Socorro, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of City of Socorro, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Socorro, Texas' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2007, on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 26 through 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 Schedule - Debt Service Fund and Budgetary Comparison Schedule - Capital Projects Fund have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole

Sweller & Pardo, LLP

El Paso, Texas
March 23, 2007

The City's net assets (total assets less related liability) at fiscal year-end 2006 are \$6,484,073 and at fiscal year-end 2005 \$6,093,302 reflecting an increase of \$390,771. The increase is primarily the result of increased sales tax revenue, as well as expenditures being less than budgeted for in fiscal year 2006. The tables below summarize the City's total assets, liabilities and net assets at September 30, 2006 and 2005.

Summary of Total Assets:	2006	2005
Cash and cash equivalents	\$ 2,759,367	\$ 2,112,609
Restricted cash	2,070,512	2,406,550
Receivables (taxes, grants, other miscellaneous)	922,902	921,617
Capital assets, net of accumulated depreciation	4,857,025	4,802,935
Other assets	965	965
	<u> </u>	<u> </u>
Total assets	<u>\$ 10,610,771</u>	<u>\$ 10,244,676</u>
 Summary of Liabilities:		
Short-term liabilities	\$ 795,314	\$ 512,340
Long-term liabilities	3,331,384	3,639,034
	<u> </u>	<u> </u>
Total liabilities	<u>\$ 4,126,698</u>	<u>\$ 4,151,374</u>
 Summary of Net Assets:		
Invested in capital assets, net of related debt	\$ 1,218,024	\$ 851,884
Restricted for debt service	46,657	30,161
Restricted for capital outlay	1,654,429	1,860,518
Unrestricted	3,564,963	3,350,739
	<u> </u>	<u> </u>
Total net assets	<u>\$ 6,484,073</u>	<u>\$ 6,093,302</u>

By far the largest portion of the City's net assets (almost 65%) reflects its investments in capital assets (e.g., land, buildings, machinery, equipment, vehicles and infrastructure); less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City had capital asset additions of \$462,126, of which the majority was for machinery and equipment. The City recorded \$406,036 in depreciation on its capital assets during FY 2006. The City did not issue any new debt during FY 2006.

Other indicators of the City's financial position and performance are revenues; program, general and restricted, and budget performance. Comparison of this indicator data as they are accumulated over the years may provide the reader with information of developing trends in the City's financial health.

**CITY OF SOCORRO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

This section of the City of Socorro's annual financial report represents our discussion and analysis of the City's financial performance during the fiscal year that ended September 30, 2006. Please read it in conjunction with the City's financial statements and accompanying footnotes, which follow this section.

FINANCIAL HIGHLIGHTS FISCAL YEAR 2006

- General Fund revenues were approximately 11% less than projected. Of the \$4,773,140 budgeted, \$508,362 was actually reserves (fund balance) So with that exclusion, general fund revenues actually exceeded budgeted revenues.
- Expenses were held to approximately 77% of budget, resulting in an actual net increase of \$370,796 to the General Fund end of year balance.
- Interest income is approximately 10 times higher than budgeted. This is due to a cash/investment analysis by staff resulting in a much higher interest rate from the City's depository.
- For the end of fiscal year 2006, net assets were reported at nearly \$6,500,000.

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT - WIDE FINANCIAL STATEMENTS

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector, with its basis in full accrual accounting and eliminating or reclassifying of internal activities.

The first of these government-wide statements is the Statements of Net Assets. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of the City infrastructure, in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or function on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, justice system, health and human services, community and economic development, and infrastructure and environmental. Business type activities include airports, water utilities, solid waste management, storm water drainage, golf courses, fairgrounds, ground transportation, and parking. The City of Socorro does not operate any business type activities. Fiduciary activities, such as employee pension plans are not included in the government-wide statements since these assets are not available to fund the City. Contributions made by the City to the employee 457 Deferred Compensation Plan are held and administered by a third party.

FUND FINANCIAL STATEMENTS

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance related laws and regulations.

The City of Socorro's finances are segregated into four primary funds: General Fund, Debt Service Fund, Special Revenue Fund and Capital Projects Fund

The General Fund reflects revenues and expenditures to provide all the basic City services to the community, such as, Police, General Government, Streets, Public Works and the Community Center

The Debt Service Fund is utilized to segregate the revenues and expenditures required to pay off debt incurred through the issuance of General Obligation Bonds, Revenue Bonds, Certificates of Obligation, Lease Purchases and other debt instruments.

The Special Revenue Fund is utilized to recognize and segregate revenues derived from grants and payments from other agencies not included in the General Fund

The Capital Projects Fund is utilized to recognize and segregate those funds, usually from bonds or Certificates of Obligation, that will be used for construction projects, such as for streets or buildings.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide fund financial statements. The notes to the financial statements follow the financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

During fiscal years 2006 and 2005, respectively, the City collected \$5,081,274 and \$4,836,421 in revenues from all sources, while expending \$4,690,503 and \$4,342,689, resulting in a net increase of assets of \$390,771 and \$493,732. The tables below summarize the years ended September 30, 2006 and 2005 revenues and expenditures for the City.

Program Revenue Summary:	2006	2005
Municipal Court fines and fees	\$ 607,732	\$ 528,759
Planning and Zoning fees	326,603	324,590
Other fees and fines	30,631	79,265
Operating grants and contributions	223,514	249,213
Capital grants and contributions	<u>22,243</u>	<u>267,243</u>
Total program revenues	<u>\$ 1,210,723</u>	<u>\$ 1,449,070</u>

General Revenue Summary:

Property taxes- general purpose	\$ 2,223,162	\$ 1,940,185
Property Taxes- debt service	507,939	488,659
Sales tax	633,603	601,959
Franchise tax	377,391	339,529
Interest income	75,547	9,534
Miscellaneous income	<u>52,909</u>	<u>7,485</u>
Total general revenue	<u>\$ 3,870,551</u>	<u>\$ 3,387,351</u>

Expenditures By Function:

General government	\$ 1,095,778	\$ 847,049
Public works	1,010,361	846,990
Municipal Court	355,001	337,821
Public Safety	1,294,779	1,119,550
Planning and zoning	209,284	222,591
Public Health	245,498	150,376
Special Projects	151,495	515,801
Rio Vista Community Center	72,019	70,002
Human Resources	83,046	49,722
Interest on long-term debt	<u>173,242</u>	<u>182,787</u>
Total expenditures	<u>\$ 4,690,503</u>	<u>\$ 4,342,689</u>

The City's annual budget reflects the financial commitment to services and improvements by the governing body. As such, budget performance at the end of the fiscal year may be used as an indicator of the City's progress towards stated goals and objectives. During FY 2006 the City's excess revenues over expenditures was \$370,796 versus budgeted amount of \$0 in the General Fund. This variance, while high, is reflective of several unforeseeable issues developing during FY 2006 as well as several grants not being awarded for which cash matches had been budgeted. In addition, the City had numerous vacant positions that were not filled during FY 2006 and/or were not filled until the end of FY 2006, but were budgeted for the entire year. The capital projects fund had significant variances from budget as budgeted capital outlays of \$1,125,000 and actual expenditures of \$410,301. These issues are not considered to be

long term detriments to the City's progress and the funds not utilized in FY 2006 are returned to fund balance and available for use in future fiscal years. There were no significant differences between the original budget and final revised budget for FY 2006.

SUMMARY

The City's financial health remains good with sufficient resources to continue current level of service delivery and nearly \$1,500,000 in funds to proceed with infrastructure improvements community wide. Improvements to the accounting system and continuing changes to the City's internal fiscal policies and procedures will further enhance the City's ability to monitor revenues and expenditures as well as promote greater management oversight and control.

The prognosis for continued financial growth in the City is good. The City enjoys steady growth and development in what was a primarily agriculture based economy. With the continued development of farm land to commercial and housing the property tax base will continue to increase. Increases in housing units will bring new families to the City and a concurrent increase in sales by local vendors thus increasing the sales tax rebates to the City. The continuing growth of these two income streams will ensure that the City remains on firm financial ground for the foreseeable future.

Questions concerning this analysis or the financial statements should be directed to Ms. Carol Garcia, City Manager at 915-858-2915 or by mail to: City of Socorro, Texas, Attn: City Manager, 124 S. Horizon Blvd., Socorro, Texas 79927.

CITY OF SOCORRO, TEXAS

STATEMENT OF NET ASSETS SEPTEMBER 30, 2006

ASSETS:

Cash and cash equivalents	\$ 2,759,367
Restricted cash	2,070,512
Accounts receivable - grantors	104,264
Other receivables, net	7,536
Accounts receivable - taxes	811,102
Capital assets, net of accumulated depreciation, if applicable	4,857,025
Other assets	<u>965</u>
Total assets	<u>\$ 10,610,771</u>

LIABILITIES:

Accounts payable	\$ 304,359
Accrued interest payable	24,217
Accrued expenses	125,409
Accrued compensated absences	33,712
Long-term liabilities:	
Due within one year	307,617
Due in more than one year	<u>3,331,384</u>
Total liabilities	<u>\$ 4,126,698</u>

NET ASSETS:

Invested in capital assets, net of related debt	\$ 1,218,024
Restricted for debt service	46,657
Unrestricted	<u>5,219,392</u>
Total net assets	<u>\$ 6,484,073</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs:	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services Fees and Fines	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,095,778	\$ 3,583	\$ 12,465	\$ -	\$ (1,079,730)
Public works	1,010,361	-	-	-	(1,010,361)
Municipal court	355,001	607,732	-	-	252,731
Public safety	1,294,779	11,782	-	22,243	(1,260,754)
Planning/zoning	209,284	326,603	-	-	117,319
Public health	245,498	-	-	-	(245,498)
Special projects	151,495	15,266	211,049	-	74,820
Rio Vista Community Center	72,019	-	-	-	(72,019)
Human resources	83,046	-	-	-	(83,046)
Interest on long-term debt	173,242	-	-	-	(173,242)
	<u>\$ 4,690,503</u>	<u>\$ 964,966</u>	<u>\$ 223,514</u>	<u>\$ 22,243</u>	<u>(3,479,780)</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purpose					2,223,162
Property taxes, levied for debt service					507,939
Sales taxes					633,603
Franchise taxes					377,391
Interest income					75,547
Miscellaneous					52,909
Total general revenues					<u>3,870,551</u>
Change in net assets					<u>390,771</u>
Net assets, beginning of year					<u>6,093,302</u>
Net assets, end of year					<u>\$ 6,484,073</u>

See accompanying notes to financial statements

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2006

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 2,759,367	\$ -	\$ -	\$ -	\$ 2,759,367
Restricted cash	-	53,015	363,067	1,654,430	2,070,512
Accounts receivable - Grantors	-	-	104,264	-	104,264
Accounts receivable - Taxes	658,593	152,509	-	-	811,102
Other receivables, net	7,536	-	-	-	7,536
Due from other funds	2,112,308	491,000	1,492,721	194,773	4,290,802
Other assets	965	-	-	-	965
Total assets	\$ 5,538,769	\$ 696,524	\$ 1,960,052	\$ 1,849,203	\$ 10,044,548
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 215,017	\$ -	\$ 47,301	\$ 42,041	\$ 304,359
Accrued expenses	124,682	-	727	-	125,409
Due to other funds	1,617,176	506,995	1,830,784	335,847	4,290,802
Deferred revenues	620,817	142,872	20,000	-	783,689
Total liabilities	2,577,692	649,867	1,898,812	377,888	5,504,259
FUND BALANCES:					
Reserved for:					
Principal and interest payments	-	46,657	-	-	46,657
Capital outlays	-	-	61,240	1,471,315	1,532,555
Unreserved	2,961,077	-	-	-	2,961,077
Total fund balances	2,961,077	46,657	61,240	1,471,315	4,540,289
Total liabilities and fund balances	\$ 5,538,769	\$ 696,524	\$ 1,960,052	\$ 1,849,203	\$ 10,044,548

See accompanying notes to financial statements

CITY OF SOCORRO, TEXAS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

Total fund balances	\$ 4,540,289
Amounts reported in the statement of net assets are different because:	
Capital assets of \$11,195,508 net of accumulated depreciation of \$(6,338,483), are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail	4,857,025
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(24,217)
Deferred revenues are not available to pay current-period expenditures and, therefore, are deferred in the funds. These include deferred grant revenues of \$20,000 and deferred property taxes of \$763,689.	783,689
Long-term liabilities of \$(3,639,001) are not due and payable in the current period and are not reported in the funds. See Note 6 for detail. Other related amounts include compensated absences payable of \$(33,712)	<u>(3,672,713)</u>
Net assets of governmental activities	<u>\$ 6,484,073</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:					
Property taxes	\$ 2,217,587	\$ 507,939	\$ -	\$ -	\$ 2,725,526
Sales taxes	633,603	-	-	-	633,603
Franchise taxes	377,391	-	-	-	377,391
Planning and zoning fees	326,603	-	-	-	326,603
Fines	590,529	-	17,203	-	607,732
Interest income	50,379	2,724	1,606	20,838	75,547
Grants	-	-	251,232	-	251,232
Other income	89,006	-	28,979	260	118,245
Total revenues	4,285,098	510,663	299,020	21,098	5,115,879
EXPENDITURES:					
General government	1,057,827	8,969	18,242	-	1,085,038
Public works	696,322	-	2,004	410,301	1,108,627
Municipal Court	328,250	-	20,470	-	348,720
Public safety	1,229,995	-	45,569	-	1,275,564
Planning/zoning	213,599	-	-	-	213,599
Public health	245,498	-	-	-	245,498
Special projects	-	-	151,495	-	151,495
Rio Vista Community Center	59,765	-	-	-	59,765
Human resources	83,046	-	-	-	83,046
Principal payments	-	312,050	-	-	312,050
Interest payments	-	173,148	-	-	173,148
Total expenditures	3,914,302	494,167	237,780	410,301	5,056,550
Net change in fund balances	370,796	16,496	61,240	(389,203)	59,329
Fund balances, beginning of year	2,590,281	30,161	-	1,860,518	4,480,960
Fund balances, end of year	\$ 2,961,077	\$ 46,657	\$ 61,240	\$ 1,471,315	\$ 4,540,289

See accompanying notes to 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
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Net change in fund balances \$ 59,329

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. This is the amount by which capital outlays of \$460,126 exceeded depreciation of \$(406,036) in the current period. 54,090

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues in the governmental funds. Similarly other revenues are not currently available at year-end and are not reported as revenue in the governmental funds. This is the change in deferred grant revenue of \$(40,183) and property taxes of \$5,579. (34,604)

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for certificates of obligation and notes payable. (94)

Bond proceeds provide current financial resources to governmental funds and, thus, increase the fund balance, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is reported as an expenditure in the governmental funds because current financial resources are used and, thus, reduce the fund balance. However, principal repayments reduce long-term liabilities in the statement of net assets and do not result as an expense on the statement of activities:

Principal payments 312,050

Change in net assets of governmental activities \$ 390,771

See accompanying notes to financial statements

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the City of Socorro, Texas (the "City"), is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity.

The City of Socorro, Texas is 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, and community development.

Reporting Entity—The financial statements of the City consist of only the funds and account groups of the City. The City has no oversight responsibility over any other governmental entity, since no other entities are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

Government-Wide and Fund Financial Statements—The statement of net assets and the statement of activities report information on all of the activities of the City. There are no business-type activities conducted by the City. All activities of the City are governmental in nature and are financed through taxes, and other non-exchange transactions.

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

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

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so 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.

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

Fund Accounting—The City's accounting system is operated on a fund basis. A fund is an independent 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 uses the following fund types:

Governmental Fund Types:

General Fund—The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those accounted for in another fund.

Debt Service Fund—The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt, including capital lease obligations, principal, interest, and related costs. Funds required to service current year bond obligations are supplemented by current year property tax collections and interfund transfers.

Special Revenue Fund—The Special Revenue Fund is used to account for the expenditures of revenues that have been restricted to specific programs or projects in contract agreements, including community development. 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 deferred revenue, a liability account. When the revenue recognition has been met, contract revenue not yet received is reported as accounts receivable.

Capital Projects Fund—The Capital Projects Fund is used to account for major projects, such as infrastructure, including streets, street improvements, and parks, financed with the proceeds of bond issues.

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 modified accrual basis of accounting as required by Texas Law.

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

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. Investments are recorded at fair value, which is based on quoted market prices.

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

Receivables and payables—Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable financial resources. All accounts and other receivables are shown net of an allowance for uncollectibles.

Allowance for Uncollectible Accounts—The City periodically evaluates the collectibility 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 has not experienced any significant losses from uncollectible accounts.

Capital Assets—General capital assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Depreciation is determined using the straight-line method over the estimated lives of the assets. The City maintains a capitalization threshold of \$5,000. The City maintains infrastructure asset records consistent with all other capital assets. Infrastructure is capitalized upon completion of construction. Improvements are also capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. When capital assets are disposed off, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:	
Building and improvements	39-40
Machinery and equipment	5
Vehicles	5
Office furniture and equipment	5-7
Software	3
Infrastructure	22-68
Leasehold improvements	39

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 assets.

Reservations of Fund Balances—The City records reservations for portions of fund balances which are designated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure in the governmental balance sheet. Unreserved fund balance indicates that portion of fund balance which is available

for appropriations in future periods. Fund balance reserves have been established for future capital outlays, principal repayments, and interest expense.

Net Assets—Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by City legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Use of 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

Deferred Revenues—The City reports unearned deferred revenue in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within 60 days after year-end are considered to have been for prior services.

Revenues—Exchange and Non-Exchange Transactions—Revenue resulting from exchange transactions, in which each party gives and receives 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 by 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.

Analysis of impairment—Management reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is determined based upon a comparison of future cash flows to the recorded value of the assets. Impairment losses are measures based upon the fair value of the impaired assets. No such impairment losses were recorded during the year ended September 30, 2006.

New Government Accounting Standards—GASB has issued Statement No. 43 "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans". This statement was issued in April 2004 and is effective for Phase III governments in fiscal year 2010

GASB has issued Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment benefits other than Pensions". This statement was issued in June 2004 and is effective for Phase III governments in fiscal year 2010.

GASB has issued Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". This statement was issued in September 2006 and is effective for Phase III governments in fiscal year 2007.

GASB has issued Statement No. 49 "Accounting and Financial Reporting for Pollution Remediation Obligations". This statement was issued in November 2006 and is effective for Phase III governments in fiscal year 2008.

Management has not yet determined the impact of the above statements on the financial statements.

2. DEPOSITS AND INVESTMENTS

Cash and deposits—Cash and deposits consist of the items reported below at September 30, 2006:

Bank deposits:	
General Fund	\$ 2,680,242
Debt Service Fund	53,015
Special Revenue Fund	363,067
Capital Projects Fund	<u>1,654,430</u>
Total Cash and Deposits	<u>\$ 4,750,754</u>

Type of Security	Market Value
Total cash and deposits	\$ 4,750,754
Total cash equivalents	<u>79,125</u>
Total deposits and cash equivalents	<u>\$ 4,829,879</u>

As of September 30 2006, the City had the following cash equivalents:

Investment	Weighted Average Maturity	Fair Value
LOGIC	19 days	<u>\$ 79,125</u>

Interest Rate Risk—In accordance with state law, the City does not purchase any investments with maturities greater than two years.

Credit Risk—In accordance with state law, investments in investment pools must be rated at least AAA by at least one nationally recognized rating service.

Custodial Credit Risk - Deposits—For a deposit or investment, custodial credit risk is the risk that, in the event of a the failure of the counterparty, the City will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. 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, 2006, the carrying amount of the City's deposits was \$4,750,754 and bank balances equaled \$4,831,979. Bank balances of \$100,000 are covered by federal depository insurance. Bank balances in excess of the federal depository insurance were collateralized with securities held by the pledging financial institution's trust department or agent in the City's name in the amount of approximately \$5,450,586 as of September 30, 2006.

Investment Policy—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.

LOGIC is a 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. The fair value of the position in LOGIC is the same as the value of the shares in the pool. Participation in LOGIC is voluntary.

3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Grant and Other Receivables and Uncollectible Accounts—Significant receivables include amounts due from grantors, for expenditure reimbursements and from customers, primarily for returned checks. These receivables are due within one year. The allowance amount is estimated for returned checks considered uncollectible. Related amounts are shown as follows.

	Gross	Allowance	Net
Grant receivables	\$ 104,264	\$ -	\$ 104,264
Other receivables	\$ 21,418	\$ (13,882)	\$ 7,536

Property Taxes Receivables, Deferred Revenue, and Property Tax Calendar—Property taxes are levied September 1, in conformity with the Texas Property Tax Code. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$535,067,119 for the year ended September 30, 2006. Taxes are due on 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. The City's total 2005-2006 tax rates were \$.491594, per \$100 of assessed valuation. The City incurred expenditures of \$36,269 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2006.

In the governmental-wide financial statements, property taxes receivable and related revenue include all amounts due to the City, regardless of when cash is received. Over time, substantially all property taxes are collected. In governmental fund financial statements, property tax revenues are considered available when they become due or past due and receivable within the current period. The City considers taxes as available if they are collected within 60 days after fiscal year-end. The remaining taxes are analyzed and an allowance provision is established to the extent that their collectibility is improbable. Included in deferred revenue reported in the governmental fund balance sheet at September 30, 2006 is \$763,689 of deferred property tax revenue.

4. CAPITAL ASSETS

Changes in Capital Assets—Capital assets activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	\$ 518,351	\$ -	\$ (2,000)	\$ 516,351
Construction in progress	-	94,600	-	94,600
Total capital assets not being depreciated	518,351	94,600	(2,000)	610,951
Other capital assets:				
Buildings and improvements	596,813	-	-	596,813
Machinery and equipment	306,076	321,040	-	627,116
Vehicles	878,171	11,026	(145,452)	743,745
Office furniture and equipment	124,017	29,890	-	153,907
Software	26,909	5,570	-	32,479
Infrastructure	8,223,180	-	-	8,223,180
Leasehold improvements	207,317	-	-	207,317
Total other capital assets at historical cost	10,362,483	367,526	(145,452)	10,584,557
Less accumulated depreciation for:				
Buildings and improvements	(210,586)	(14,920)	-	(225,506)
Machinery and equipment	(275,439)	(58,716)	-	(334,155)
Vehicles	(692,003)	(74,411)	145,452	(620,962)
Office furniture and equipment	(64,664)	(20,362)	-	(85,026)
Software	(26,909)	(309)	-	(27,218)
Infrastructure	(4,792,557)	(226,425)	-	(5,018,982)
Leasehold improvements	(15,741)	(10,893)	-	(26,634)
Total accumulated depreciation	(6,077,899)	(406,036)	145,452	(6,338,483)
Other capital assets, net	4,284,584	(38,510)	-	4,246,074
Governmental Activities Capital Assets, Net	\$ 4,802,935	\$ 56,090	\$ (2,000)	\$ 4,857,025

At September 30, 2006, construction in progress consisted of payments for fuel tanks not placed in service of \$72,100 and infrastructure of \$22,500.

Depreciation Expense—Depreciation expense was charged to functions of the government as follows, for the year ended September 30, 2006:

General government	\$ 10,740
Public works	321,355
Municipal court	6,281
Public safety	54,151
Planning/zoning	1,255
Rio Vista Community Center	12,254
	<u>406,036</u>
	<u>\$ 406,036</u>

5. ACCRUED COMPENSATED ABSENCES

The City's leave policy allows employees to accumulate sick leave and vacation leave. Upon termination, any accumulated vacation will be paid to the employee. Accumulated sick leave is not paid upon termination, but rather, only upon illness while in the employment of the City. As of September 30, 2006, employees had approximately 2,999 hours of accumulated vacation leave, totaling \$33,712.

6. LONG-TERM LIABILITIES

Notes Payable—Notes payable were issued to acquire, and are collateralized by, police cars and machinery at a cost of \$208,853 and for street improvements at a cost of \$738,500, which are collateralized by a % of sales and ad valorem taxes. The notes payable are charged interest at rates ranging from 3.8% to 5.0% and matures at various dates in 2007 through 2014. The debt service for notes payable are as follows:

Year Ending September 30:	Principal	Interest
2007	\$ 118,517	\$ 21,127
2008	103,082	16,265
2009	-	12,103
2010	59,039	12,103
2011	61,283	9,860
2012-2014	<u>198,180</u>	<u>15,249</u>
Totals	<u>\$ 540,101</u>	<u>\$ 86,707</u>

Operating Leases—The City has entered into an operating lease for land for \$6,000 per year through 2011. The City has also entered into an operating lease for a copier for \$228 per month. During the year ended September 30, 2006, rental payments under such leases totaled \$6,228. The following is a schedule of future minimum lease payments as of September 30, 2006:

Year Ending September 30:	Operating Leases
2007	\$ 8,736
2008	8,736
2009	6,684
2010	6,000
2011	<u>6,000</u>
Totals	<u>\$ 36,156</u>

Certificates of Obligations—In 1999, the City issued General Obligation Refunding Bonds, Series 1999. The proceeds of the Series 1999 bonds were used to refund a portion of the City's outstanding debt, including all of the maturities of the Series 1993 bonds and to pay the costs of issuing the Series 1999 bonds. The purpose of such refunding was to lower overall debt services requirements related to the Refunded Obligations. The Series 1999 bonds are dated June 1, 1999. Interest on the bonds, with a floor of 4.35% and a ceiling of 5.00%, is payable semi-annually on March 1 and September 1 of each year beginning September 1, 1999.

In 2001, the City issued Combination Tax and Museum Revenue Bonds Series 2001. The original date of issue was May, 2001. Interest on the bonds is at 5.7% and is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2002.

In 2004, the City issued Combination Tax and Museum Revenue Bonds, Series 2004. The original date of issue was May, 2004. Interest on the bonds is at 4.15% and is payable annually on March 1 of each year beginning March 1, 2005.

The annual debt service requirements to maturity for bonded debt as of September 30, 2006, are as follows:

Year Ending September 30,	Principal	Interest
2007	\$ 189,100	\$ 138,085
2008	193,100	129,481
2009	197,200	120,594
2010	206,400	111,465
2011	216,600	101,836
2012-2016	1,064,500	376,970
2017-2021	602,000	222,480
2022-2024	<u>430,000</u>	<u>39,480</u>
Totals	<u>\$ 3,098,900</u>	<u>\$ 1,240,391</u>

Changes in Long-term Debt—The following is a summary of changes in long-term debt for the year ended September 30, 2006:

	Balance October 1, 2005	Additions	Payments	Balance September 30, 2006	Due Within One Year
Notes payable	\$ 667,951	\$ -	\$ (127,850)	\$ 540,101	\$ 118,517
Certificates of obligation	3,283,100	-	(184,200)	3,098,900	189,100
Compensated absences	33,712	-	-	33,712	33,712
Total	\$ 3,984,763	\$ -	\$ (312,050)	\$ 3,672,713	\$ 341,329

7. FUND BALANCE

The governmental fund financial statements report reserved fund balance for amounts not available for apportionment or restricted for specific purposes. Debt Service fund balance is restricted for debt obligations. Capital Projects fund balance is restricted for construction projects.

8. DUE FROM/DUE OTHER FUNDS

The following are the due from/due to balances as of September 30, 2006, reported on the governmental fund balance sheet:

	Due From	Due To
General Fund:		
Special Revenue Fund	\$ 1,762,554	\$ 1,012,133
Capital Projects Fund	13,907	114,043
Debt Service Fund	335,847	491,000
Total General Fund	\$ 2,112,308	\$ 1,617,176
Special Revenue Fund:		
General Fund	\$ 1,012,133	\$ 1,762,554
Capital Projects Fund	-	68,230
Debt Service Fund	480,588	-
Total Special Revenue Fund	\$ 1,492,721	\$ 1,830,784
Debt Service Fund:		
General Fund	\$ 491,000	\$ 13,907
Special Revenue Fund	-	480,588
Capital Projects Fund	-	12,500
Total Debt Service Fund	\$ 491,000	\$ 506,995

Capital Projects Fund:		
General Fund	\$ 114,043	\$ 335,847
Special Revenue Fund	68,230	-
Debt Services Fund	12,500	-
	<hr/>	<hr/>
Total Capital Projects Fund	\$ 194,773	\$ 335,847
	<hr/>	<hr/>

9. TRANSFERS

Transfers within the City governmental funds are substantially for the purpose of subsidizing operation functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs. However, if a loss occurs in a fund and its fund balance is not able to absorb the loss, a transfer is made from the General Fund to that fund.

The Capital Projects Fund had excess expenditures over revenues of \$389,203. The Capital Projects Fund balance was able to absorb the loss for the year ended September 30, 2006.

10. DEFERRED COMPENSATION

All City employees are eligible to participate in the City's Deferred Compensation Plan (the "Plan") adopted under the provisions of International Revenue Code 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The Plan is administrated 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 matches 5% of the participants' contributions into the Plan. The City's contributions into the Plan for fiscal year ended September 30, 2006 totaled \$636.

11. RISK POOL

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. The City is not liable for the future claims and, therefore, no liability has accrued at September 30, 2006.

12. CONTINGENCIES

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, 2006.

13. FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant funds 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. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

14. OTHER CONTRACTS AND AGREEMENTS

The City entered into a contract with the City of El Paso and the County of El Paso on behalf of the El Paso City-County Health and Environmental District for the purpose of obtaining various health related services. The contract is for the period September 1, 2005 through August 31, 2006, and is in the amount of \$206,294.

The City entered into a contract with the El Paso Community College District for the purpose of obtaining a site manager for the Rio Vista Community Center. Under the terms of the contract, the City is required to pay \$15,000 of the manager's salary for the period September 1, 2005 through August 31, 2006.

15. GRANTS AWARDED

In December 2003, the City was awarded a grant in the amount of \$500,000 from the Texas Department of Housing and Community Affairs for Homebuyer Assistance under the HOME Investment Partnership Program. The City expended \$82,807 under this grant in 2006.

In June 2005, the City was awarded a grant in the amount of \$296,596 from the U.S. Department of Housing and Urban Development passed through the Office of Rural Community Affairs under the Community Development Block Grant program. The City expended \$794 under this grant in 2006.

In September 2003, the City was awarded a grant in the amount of \$190,980 from the U.S. Department of Justice under the Office of Community Oriented Policing Services universal hiring program. The City expended \$33,821 under this grant in 2006.

In October 2005, the City was awarded a grant in the amount of \$60,000 from the Texas Department of Housing and Community Affairs for Homebuyer Assistance under the Contract for Deed Program. The City expended \$1,420 under this grant in 2006.

In October 2005, the City was awarded a grant in the amount of \$132,811 from the Texas Department of Housing and Community Affairs under the Owner Occupied Rehabilitation Program. The City expended \$46,474 under this grant in 2006.

In October 2006, the City was awarded various FEMA grants totaling \$203,855 passed through the Texas Division of Emergency Management for disaster relief funds. Prior to receiving this grant, the City expended \$65,672 in fiscal year 2006 related to flooding in the City that is expected to be reimbursed under this grant.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Budget Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues/inflows:				
Property taxes	\$ 2,134,337	\$ 2,134,337	\$ 2,200,797	\$ 66,460
Sales taxes	550,000	550,000	633,603	83,603
Franchise taxes	360,000	360,000	377,391	17,391
Planning and zoning fees	572,198	572,198	326,603	(245,595)
Fines	600,000	600,000	590,529	(9,471)
Interest income	5,000	5,000	50,379	45,379
Other income	529,362	551,605	89,006	(462,599)
Total revenues	<u>4,750,897</u>	<u>4,773,140</u>	<u>4,268,308</u>	<u>(504,832)</u>
Expenditures/outflows:				
General government	1,481,512	1,531,512	836,567	694,945
Public works	795,526	745,526	696,322	49,204
Municipal court	389,804	389,804	328,250	61,554
Public safety	1,347,598	1,369,841	1,229,995	139,846
Planning/zoning	277,253	277,253	213,599	63,654
Public health	310,101	310,101	245,498	64,603
Rio Vista Community Center	63,678	63,678	59,765	3,913
Human resources	85,424	85,424	83,046	2,378
Total expenditures	<u>4,750,896</u>	<u>4,773,139</u>	<u>3,693,042</u>	<u>1,080,097</u>
Excess of revenues over expenditures	1	1	575,266	575,265
Fund balance, beginning of year	<u>2,191,468</u>	<u>2,191,468</u>	<u>2,191,468</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,191,469</u>	<u>\$ 2,191,469</u>	<u>\$ 2,766,734</u>	<u>\$ 575,265</u>

(continued)

CITY OF SOCORRO, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2006**

<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Original	Final		
Budget basis		\$ 575,266	
Revenue accruals		16,790	
Expenditure accruals		<u>(221,260)</u>	
GAAP basis		<u>\$ 370,796</u>	

(concluded)

See accompanying notes to required supplementary information.

CITY OF SOCORRO, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Interest income	\$ 3,000	\$ 3,000	\$ 1,606	\$ (1,394)
Fines	-	-	17,203	17,203
Grants	1,731,419	1,731,419	291,415	(1,440,004)
Other income	198,000	210,000	28,979	(181,021)
	<u>1,932,419</u>	<u>1,944,419</u>	<u>339,203</u>	<u>(1,605,216)</u>
Expenditures/outflows:				
General government	1,567,849	1,567,849	18,242	1,549,607
Municipal court	33,000	33,000	20,470	12,530
Public safety	191,570	211,570	45,569	166,001
Public works	140,000	140,000	153,499	(13,499)
	<u>1,932,419</u>	<u>1,952,419</u>	<u>237,780</u>	<u>1,714,639</u>
Excess of revenues (expenditures) over expenditures (revenues)	-	(8,000)	101,423	109,423
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ (8,000)</u>	<u>\$ 101,423</u>	<u>\$ 109,423</u>
Budget basis			\$ 101,423	
Revenue accruals			(40,183)	
GAAP basis			<u>\$ 61,240</u>	

See accompanying notes to required supplementary information

CITY OF SOCORRO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Process—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.

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.

Estimated Resources—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 2006.

Appropriations—An annual appropriation resolution must be passed by September 15 of the preceding year for the period October 1 to September 30. The appropriation resolution fixes spending authority at the fund and department level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among funds and objects within a fund may be modified during the year only by a resolution of the City Council. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriations in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as final budgeted amounts in the schedules of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations.

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

Budgetary Basis of Accounting—The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles ("GAAP") The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and in the full accrual basis on the government-wide financial statements

SUPPLEMENTARY INFORMATION



Strickler & Prieto, LLP

201 E Main Suite 500
El Paso Texas 79901
Tel (915) 532-2901
Fax (915) 532-0807
www.cpa-sp.com

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 Trini Lopez
and Members of City Council
City of Socorro, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Socorro, Texas, as of and for the year ended September 30, 2006, which collectively comprise the City of Socorro, Texas's basic financial statements and have issued our report thereon dated March 23, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Socorro, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation 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 of 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of City of Socorro, Texas, in a separate letter dated March 23, 2007.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frederick & Pardo, LLP

El Paso Texas
March 23, 2007

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Property taxes	\$ 494,250	\$ 494,250	\$ 519,150	\$ 24,900
Interest income	400	400	2,724	2,324
Total revenues	<u>494,650</u>	<u>494,650</u>	<u>521,874</u>	<u>27,224</u>
Expenditures/outflows:				
General government	3,381	3,381	8,969	(5,588)
Principal payments	316,822	316,822	312,050	4,772
Interest payments	174,447	174,447	173,148	1,299
Total expenditures	<u>494,650</u>	<u>494,650</u>	<u>494,167</u>	<u>483</u>
Net change in fund balance	-	-	27,707	27,707
Fund balance, beginning of year	<u>30,161</u>	<u>30,161</u>	<u>30,161</u>	-
Fund balance, end of year	<u>\$ 30,161</u>	<u>\$ 30,161</u>	<u>\$ 57,868</u>	<u>\$ 27,707</u>
Budget basis			\$ 27,707	
Revenue accruals			<u>(11,211)</u>	
GAAP basis			<u>\$ 16,496</u>	

See accompanying notes to financial statements

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Proceeds from bonds	\$ 1,125,000	\$ 1,125,000	\$ -	\$ (1,125,000)
Interest income	-	-	20,838	20,838
Other income	-	-	260	260
Total revenues	<u>1,125,000</u>	<u>1,125,000</u>	<u>21,098</u>	<u>(1,103,902)</u>
Expenditures/outflows:				
Public works	1,125,000	1,125,000	410,301	714,699
Total expenditures	<u>1,125,000</u>	<u>1,125,000</u>	<u>410,301</u>	<u>714,699</u>
Net change in fund balance	-	-	(389,203)	(389,203)
Fund balance, beginning of year	1,860,518	1,860,518	1,860,518	-
Fund balance, end of year	<u>\$ 1,860,518</u>	<u>\$ 1,860,518</u>	<u>\$ 1,471,315</u>	<u>\$ 389,203</u>

See accompanying notes to financial statements