

City of Socorro, Texas

*Basic Financial Statements,
Required Supplementary Information
and Supplementary Information
For the Year Ended September 30, 2007
and Independent Auditors' Report*

CITY OF SOCORRO, TEXAS
SEPTEMBER 30, 2007
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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 the City of Socorro, Texas, as of and for the year ended September 30, 2007, 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, 2007, 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 August 7, 2008, 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.

Feller & Puetz, LLP

El Paso, Texas
August 7, 2008

**CITY OF SOCORRO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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, 2007. Please read it in conjunction with the City's financial statements and accompanying footnotes, which follow this section.

FINANCIAL HIGHLIGHTS FISCAL YEAR 2007

- General Fund revenues were approximately 3% more than projected.
- General fund expenses were held to approximately 94% of budget, which helped result in an actual net increase of \$725,521 to the General Fund end of year balance.
- Interest income is approximately 30 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 2007, net assets were reported at approximately \$7,000,000.

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.

The City's net assets (total assets less related liabilities) at fiscal year-end 2007 are \$7,045,590 and at fiscal year-end 2006 are \$6,484,073 reflecting an increase of \$561,517. The increase is primarily the result of increased property tax revenue and sales tax revenue. The tables below summarize the City's total assets, liabilities and net assets at September 30, 2007 and 2006.

Summary of Total Assets:	2007	2006
Cash and cash equivalents	\$ 3,468,330	\$ 2,759,367
Restricted cash	1,775,944	2,070,512
Receivables (taxes, grants, other miscellaneous)	962,357	922,902
Capital assets, net of accumulated depreciation	5,089,595	4,857,025
Other assets	965	965
	<hr/>	<hr/>
Total assets	\$ 11,297,191	\$ 10,610,771
	<hr/>	<hr/>
Summary of Liabilities:		
Short-term liabilities	\$ 648,114	\$ 795,314
Long-term liabilities	3,603,487	3,331,384
	<hr/>	<hr/>
Total liabilities	\$ 4,251,601	\$ 4,126,698
	<hr/>	<hr/>
Summary of Net Assets:		
Invested in capital assets, net of related debt	\$ 1,486,108	\$ 1,218,024
Restricted for debt service	21,725	46,657
Restricted for capital outlay	1,340,533	1,654,429
Unrestricted	4,197,224	3,564,963
	<hr/>	<hr/>
Total net assets	\$ 7,045,590	\$ 6,484,073
	<hr/>	<hr/>

A large portion of the City's net assets (almost 21%) 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 \$692,168, of which the majority was for vehicles and infrastructure. The City recorded \$459,598 in depreciation on its capital assets during FY 2007. The City issued new capital leases for vehicles for \$333,085 during FY 2007.

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.

During fiscal years 2007 and 2006, respectively, the City collected \$6,434,644 and \$5,081,274 in revenues from all sources, while expending \$5,873,127 and \$4,690,503, resulting in a net increase of assets of \$561,517 and \$390,771. The tables below summarize the years ended September 30, 2007 and 2006 revenues and expenditures for the City.

Program Revenue Summary:	2007	2006
Municipal Court fines and fees	\$ 683,008	\$ 607,732
Planning and Zoning fees	175,620	326,603
Other fees and fines	159,735	30,631
Operating grants and contributions	898,129	223,514
Capital grants and contributions	-	22,243
	<hr/>	<hr/>
Total program revenues	\$ 1,916,492	\$ 1,210,723

General Revenue Summary:		
Property taxes- general purpose	\$ 2,637,532	\$ 2,223,162
Property Taxes- debt service	497,293	507,939
Sales tax	733,655	633,603
Franchise tax	399,471	377,391
Interest income	236,444	75,547
Miscellaneous income	13,757	52,909
	<hr/>	<hr/>
Total general revenue	\$ 4,518,152	\$ 3,870,551

Expenditures By Function:		
General government	\$ 1,517,698	\$ 1,095,778
Public works	1,359,405	1,010,361
Municipal Court	359,016	355,001
Public Safety	1,602,417	1,294,779
Planning and zoning	308,900	209,284
Public Health	317,494	245,498
Special Projects	118,785	151,495
Rio Vista Community Center	64,096	72,019
Human Resources	43,994	83,046
Interest on long-term debt	181,322	173,242
	<hr/>	<hr/>
Total expenditures	\$ 5,873,127	\$ 4,690,503

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 2007 the City's increase in fund balance was \$725,521 versus budgeted amount of \$1 in the General Fund. This variance, while high, is reflective of several unforeseeable issues developing during FY 2007, including receiving approximately \$414,000 more in property tax revenue and approximately 100,000 more in sales tax revenue compared to 2006. 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 2007, 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 \$373,360. A certificate of obligation was budgeted to be issued in FY 2007 and was not. These issues are not considered to be long term detriments to the City's progress and the funds not utilized in FY 2007 are returned to fund balance and available for use in future fiscal years.

SUMMARY

The City's financial health remains good with sufficient resources to continue current level of service delivery and approximately \$1,341,000 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 Mr. Manny Soto, Interim 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, 2007

ASSETS:

Cash and cash equivalents	\$ 3,468,330
Restricted cash	1,775,944
Accounts receivable - grantors	114,919
Accounts receivable - taxes	847,438
Capital assets, net of accumulated depreciation, if applicable	5,089,595
Other assets	<u>965</u>
Total assets	<u>\$ 11,297,191</u>

LIABILITIES:

Accounts payable	\$ 425,201
Accrued interest payable	45,893
Accrued expenses	121,318
Accrued compensated absences	55,702
Long-term liabilities:	
Due within one year	401,987
Due in more than one year	<u>3,201,500</u>
Total liabilities	<u>\$ 4,251,601</u>

NET ASSETS:

Invested in capital assets, net of related debt	\$ 1,486,108
Restricted for debt service	21,725
Restricted for capital outlay	1,340,533
Unrestricted	<u>4,197,224</u>
Total net assets	<u>\$ 7,045,590</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2007

Functions/Programs:	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services Fees and Fines	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,517,698	\$ 124,867	\$ 4,203	\$ -	\$ (1,388,628)
Public works	1,359,405	2,043	-	-	(1,357,362)
Municipal court	359,016	683,008	-	-	323,992
Public safety	1,602,417	32,825	-	-	(1,569,592)
Planning/zoning	308,900	175,620	-	-	(133,280)
Public health	317,494	-	-	-	(317,494)
Special projects	118,785	-	893,926	-	775,141
Rio Vista Community Center	64,096	-	-	-	(64,096)
Human resources	43,994	-	-	-	(43,994)
Interest on long-term debt	181,322	-	-	-	(181,322)
	<u>\$ 5,873,127</u>	<u>\$ 1,018,363</u>	<u>\$ 898,129</u>	<u>\$ -</u>	<u>(3,956,635)</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purpose					2,637,532
Property taxes, levied for debt service					497,293
Sales taxes					733,655
Franchise taxes					399,471
Interest income					236,444
Miscellaneous					13,757
Total general revenues					<u>4,518,152</u>
Change in net assets					<u>561,517</u>
Net assets, beginning of year					<u>6,484,073</u>
Net assets, end of year					<u>\$ 7,045,590</u>

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2007

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 3,468,330	\$ -	\$ -	\$ -	\$ 3,468,330
Restricted cash	-	55,930	379,481	1,340,533	1,775,944
Accounts receivable - Grantors	-	-	114,919	-	114,919
Accounts receivable - Taxes	707,198	140,240	-	-	847,438
Due from other funds	2,626,267	523,883	1,876,306	194,773	5,221,229
Other assets	965	-	-	-	965
Total assets	\$ 6,802,760	\$ 720,053	\$ 2,370,706	\$ 1,535,306	\$ 11,428,825
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 307,685	\$ -	\$ 86,120	\$ 31,396	\$ 425,201
Accrued expenses	120,591	-	727	-	121,318
Due to other funds	2,030,055	567,878	2,283,859	339,437	5,221,229
Deferred revenues	657,831	130,450	-	-	788,281
Total liabilities	3,116,162	698,328	2,370,706	370,833	6,556,029
FUND BALANCES:					
Reserved for:					
Principal and interest payments	-	21,725	-	-	21,725
Capital outlays	-	-	-	1,164,473	1,164,473
Unreserved	3,686,598	-	-	-	3,686,598
Total fund balances	3,686,598	21,725	-	1,164,473	4,872,796
Total liabilities and fund balances	\$ 6,802,760	\$ 720,053	\$ 2,370,706	\$ 1,535,306	\$ 11,428,825

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, 2007

Total fund balances \$ 4,872,796

Amounts reported in the statement of net assets are different because:

Capital assets of \$11,887,676 accumulated depreciation of \$(6,798,081), are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail. 5,089,595

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (45,893)

Deferred revenues are not available to pay current-period expenditures and, therefore, are deferred in the funds. These are the deferred property taxes of \$788,281. 788,281

Long-term liabilities of \$(3,603,487) 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 \$(55,702) (3,659,189)

Net assets of governmental activities \$ 7,045,590

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, 2007

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:					
Property taxes	\$ 2,600,518	\$ 509,715	\$ -	\$ -	\$ 3,110,233
Sales taxes	733,655	-	-	-	733,655
Franchise taxes	399,471	-	-	-	399,471
Planning and zoning fees	175,620	-	-	-	175,620
Fines	683,008	-	-	-	683,008
Interest income	153,598	3,588	12,740	66,518	236,444
Grants	-	-	912,326	-	912,326
Other income	166,485	-	12,810	-	179,295
Total revenues	4,912,355	513,303	937,876	66,518	6,430,052
EXPENDITURES:					
General government	899,958	9,990	664,668	-	1,574,616
Public works	913,570	-	109,065	347,021	1,369,656
Municipal Court	335,649	-	13,116	-	348,765
Public safety	1,619,555	-	133,186	-	1,752,741
Planning/zoning	297,062	-	-	26,339	323,401
Public health	316,315	-	-	-	316,315
Special projects	1,742	-	116,602	-	118,344
Rio Vista Community Center	54,717	-	-	-	54,717
Human resources	43,830	-	-	-	43,830
Principal payments	-	368,599	-	-	368,599
Interest payments	-	159,646	-	-	159,646
Total expenditures	4,482,398	538,235	1,036,637	373,360	6,430,630
Excess (deficiency) of revenues over (under) expenditures	429,957	(24,932)	(98,761)	(306,842)	(578)
OTHER FINANCING SOURCES (USES):					
Fund transfers	(37,521)	-	37,521	-	-
Capital lease financing	333,085	-	-	-	333,085
Net change in fund balances	725,521	(24,932)	(61,240)	(306,842)	332,507
Fund balances, beginning of year	2,961,077	46,657	61,240	1,471,315	4,540,289
Fund balances, end of year	\$ 3,686,598	\$ 21,725	\$ -	\$ 1,164,473	\$ 4,872,796

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, 2007

Net change in fund balances \$ 332,507

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 \$692,168 exceeded depreciation of \$(459,598) in the current period. 232,570

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 property taxes of \$24,592 and deferred grant revenue of \$(20,000). 4,592

Accrued compensated absences are not reported in the governmental funds, but are reported in the statement of net assets. This is the change in accrued compensated absences. (21,990)

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. (21,676)

Capital lease financing provides current financial resources to governmental funds and, thus, increases 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. This is the amount by which principal payments of \$368,599 exceeded capital lease financing of \$(333,085). 35,514

Change in net assets of governmental activities \$ 561,517

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2007

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 of, 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, 2007.

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. 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.

GASB has issued Statement No. 50 "*Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*". This statement was issued in May 2007 and is effective for Phase III governments in fiscal year 2008.

GASB has issued Statement No. 51 "*Accounting and Financial Reporting for Intangible Assets*". This statement was issued in June 2007 and is effective for Phase III governments in fiscal year 2010.

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, 2007:

Bank deposits:	
General Fund	\$ 3,384,918
Debt Service Fund	55,930
Special Revenue Fund	379,481
Capital Projects Fund	<u>1,340,533</u>
Total Cash and Deposits	<u>\$ 5,160,862</u>

Type of Security	Market Value
Total cash and deposits	\$ 5,160,862
Total cash equivalents	<u>83,412</u>
Total deposits and cash equivalents	<u>\$ 5,244,274</u>

As of September 30, 2007, the City had the following cash equivalents:

Investment	Weighted Average Maturity	Fair Value
LOGIC	34 days	<u>\$ 83,412</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, 2007, the carrying amount of the City's deposits was \$5,160,862 and bank balances equaled \$397,409. 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 \$797,746 as of September 30, 2007.

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. These receivables are due within one year and expected to be fully collectible. Related amounts are shown as follows.

	Gross	Allowance	Net
Grant receivables	\$ 114,919	\$ -	\$ 114,919

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 \$607,161,007 for the year ended September 30, 2007. 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 2006-2007 tax rates were \$.402387, per \$100 of assessed valuation. The City incurred expenditures of \$43,562 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2007.

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, 2007 is \$788,281 of deferred property tax revenue.

4. CAPITAL ASSETS

Changes in Capital Assets—Capital assets activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Additions and Reclassifications	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	\$ 516,351	\$ 23,734	\$ -	\$ 540,085
Construction in progress	94,600	(94,600)	-	-
Total capital assets not being depreciated	<u>610,951</u>	<u>(70,866)</u>	<u>-</u>	<u>540,085</u>
Other capital assets:				
Buildings and improvements	596,813	73,820	-	670,633
Machinery and equipment	627,116	97,888	-	725,004
Vehicles	743,745	378,318	-	1,122,063
Office furniture and equipment	153,907	-	-	153,907
Software	32,479	6,300	-	38,779
Infrastructure	8,223,180	206,708	-	8,429,888
Leasehold improvements	207,317	-	-	207,317
Total other capital assets at historical cost	<u>10,584,557</u>	<u>763,034</u>	<u>-</u>	<u>11,347,591</u>
Less accumulated depreciation for:				
Buildings and improvements	(225,506)	(17,334)	-	(242,840)
Machinery and equipment	(334,155)	(73,468)	-	(407,623)
Vehicles	(620,962)	(111,831)	-	(732,793)
Office furniture and equipment	(85,026)	(22,179)	-	(107,205)
Software	(27,218)	(2,382)	-	(29,600)
Infrastructure	(5,018,982)	(224,591)	-	(5,243,573)
Leasehold improvements	(26,634)	(7,813)	-	(34,447)
Total accumulated depreciation	<u>(6,338,483)</u>	<u>(459,598)</u>	<u>-</u>	<u>(6,798,081)</u>
Other capital assets, net	<u>4,246,074</u>	<u>303,436</u>	<u>-</u>	<u>4,549,510</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,857,025</u>	<u>\$ 232,570</u>	<u>\$ -</u>	<u>\$ 5,089,595</u>

Depreciation Expense—Depreciation expense was charged to functions of the government as follows, for the year ended September 30, 2007:

General government	\$ 13,057
Public works	331,668
Municipal court	8,951
Public safety	86,113
Planning/zoning	10,634
Rio Vista Community Center	<u>9,175</u>
	<u>\$ 459,598</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, 2007, employees had approximately 4,428 hours of accumulated vacation leave, totaling \$55,702.

6. LONG-TERM LIABILITIES

Notes Payable and Capital Leases—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. During the year ended September 30, 2007, the City entered into two capital leases for vehicles at a cost of \$224,835 and \$108,250 with interest at 5.6% and 5.4% and maturing October 2009 and September 2010, respectively. The debt service for notes payable and capital leases are as follows:

Year Ending September 30:	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2008	\$ 102,985	\$ 16,222	\$ 105,902	\$ 13,448
2009	-	12,103	80,912	9,205
2010	59,039	12,103	85,388	4,726
2011	61,283	9,860	-	-
2012	63,611	7,531	-	-
2013-2014	<u>134,567</u>	<u>7,718</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 421,485</u>	<u>\$ 65,537</u>	<u>\$ 272,202</u>	<u>\$ 27,379</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, 2007, rental payments under such leases totaled \$6,228. The following is a schedule of future minimum lease payments as of September 30, 2007:

Year Ending September 30:	Operating Leases
2008	\$ 8,736
2009	6,684
2010	6,000
2011	6,000
	<hr/>
Totals	\$ 27,420

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, 2007, are as follows:

Year Ending September 30,	Principal	Interest
2008	\$ 193,100	\$ 129,481
2009	197,200	120,594
2010	206,400	111,465
2011	216,600	101,836
2012	264,100	90,617
2013-2017	910,400	344,974
2018-2022	629,000	185,550
2023-2024	293,000	17,789
	<hr/>	<hr/>
Totals	\$ 2,909,800	\$ 1,102,306

Changes in Long-term Debt—The following is a summary of changes in long-term debt for the year ended September 30, 2007:

	Balance October 1, 2006	Additions	Payments	Balance September 30, 2007	Due Within One Year
Notes payable	\$ 540,101	\$ -	\$ (118,616)	\$ 421,485	\$ 102,985
Capital leases	-	333,085	(60,883)	272,202	105,902
Certificates of obligation	3,098,900	-	(189,100)	2,909,800	193,100
Compensated absences	33,712	21,990	-	55,702	55,702
Total	\$ 3,672,713	\$ 355,075	\$ (368,599)	\$ 3,659,189	\$ 457,689

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, 2007, reported on the governmental fund balance sheet:

	Due From	Due To
General Fund:		
Special Revenue Fund	\$ 2,215,630	\$ 1,395,718
Capital Projects Fund	335,847	114,044
Debt Service Fund	74,790	520,293
Total General Fund	\$ 2,626,267	\$ 2,030,055
Special Revenue Fund:		
General Fund	\$ 1,395,718	\$ 2,215,630
Capital Projects Fund	-	68,229
Debt Service Fund	480,588	-
Total Special Revenue Fund	\$ 1,876,306	\$ 2,283,859
Debt Service Fund:		
General Fund	\$ 520,293	\$ 74,790
Special Revenue Fund	-	480,588
Capital Projects Fund	3,590	12,500
Total Debt Service Fund	\$ 523,883	\$ 567,878

Capital Projects Fund:		
General Fund	\$ 114,044	\$ 335,847
Special Revenue Fund	68,229	-
Debt Service Fund	12,500	3,590
	<hr/>	<hr/>
Total Capital Projects Fund	\$ 194,773	\$ 339,437
	<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.

During the year ended September 30, 2007, the Debt Service Fund, Special Revenue Fund and Capital Projects Fund had excess expenditures over revenues of \$24,932, \$98,761 and \$306,842, respectively. The Debt Service Fund balance and Capital Projects Fund balance were able to absorb the losses for the year ended September 30, 2007. The General Fund transferred \$37,521 to the Special Revenue Fund during the year ended September 30, 2007.

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, 2007 totaled \$2,040.

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, 2007.

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, 2007.

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, 2006 through August 31, 2007, and is in the amount of \$256,406.

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 \$4,224 and \$13,563 of the manager's salary for the period September 1, 2006 through December 31, 2006 and January 1, 2007 through August 31, 2007, respectively.

15. GRANTS AWARDED

In December 2003, the City was awarded a grant in the amount of \$520,000 from the Texas Department of Housing and Community Affairs for Homebuyer Assistance under the HOME Investment Partnership Program. The City expended \$199,510 under this grant in fiscal year 2007.

In June 2005, the City was awarded a grant in the amount of \$266,596 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 \$221,745 under this grant in fiscal year 2007.

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 \$23,453 under this grant in fiscal year 2007.

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 \$1,500 under this grant in fiscal year 2007.

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 \$105,404 under this grant in fiscal year 2007.

In October 2006, the City was awarded various FEMA grants totaling \$210,184 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 was reimbursed under this grant. The City expended \$144,512 under this grant in fiscal year 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2007

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Property taxes	\$ 2,474,954	\$ 2,134,337	\$ 2,600,518	\$ 466,181
Sales taxes	671,925	550,000	733,655	183,655
Franchise taxes	428,400	360,000	399,471	39,471
Planning and zoning fees	335,423	572,198	175,620	(396,578)
Fines	498,000	600,000	683,008	83,008
Interest income	122,508	5,000	153,598	148,598
Other income	105,144	551,605	166,485	(385,120)
Total revenues	4,636,354	4,773,140	4,912,355	139,215
Expenditures/outflows:				
General government	1,615,147	1,531,512	899,958	631,554
Public works	941,465	745,526	913,570	(168,044)
Municipal court	199,670	389,804	335,649	54,155
Public safety	1,504,620	1,369,841	1,619,555	(249,714)
Planning/zoning	353,816	277,253	297,062	(19,809)
Public health	341,335	310,101	316,315	(6,214)
Special projects	-	-	1,742	(1,742)
Rio Vista Community Center	68,219	63,678	54,717	8,961
Human resources	97,207	85,424	43,830	41,594
Total expenditures	5,121,479	4,773,139	4,482,398	290,741
Excess of revenues over expenditures	(485,125)	1	429,957	429,956
Other financing sources (uses)				
Fund transfers	-	-	(37,521)	(37,521)
Capital lease financing	-	-	333,085	333,085
Net change in fund balance	(485,125)	1	725,521	725,520
Fund balance, beginning of year	2,191,469	2,191,469	2,766,734	575,265
Fund balance, end of year	\$ 1,706,344	\$ 2,191,470	\$ 3,492,255	\$ 1,300,785

(continued)

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2007

<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
Original	Final		
Budget basis		\$ 3,492,255	
Revenue accruals		-	
Expenditure accruals		-	
GAAP basis		<u>\$ 3,492,255</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, 2007

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Interest income	\$ 12,689	\$ 3,000	\$ 12,740	\$ 9,740
Fines	17,643	33,000	-	(33,000)
Grants	1,566,738	1,731,419	912,326	(819,093)
Other income	22,300	177,000	12,810	(164,190)
Total revenues	<u>1,619,370</u>	<u>1,944,419</u>	<u>937,876</u>	<u>(1,006,543)</u>
Expenditures/outflows:				
General government	852,260	1,567,849	664,668	903,181
Municipal court	25,000	33,000	13,116	19,884
Public safety	127,613	211,570	133,186	78,384
Special projects	-	-	116,602	(116,602)
Public works	400,000	140,000	109,065	30,935
Total expenditures	<u>1,404,873</u>	<u>1,952,419</u>	<u>1,036,637</u>	<u>915,782</u>
Excess of revenues (expenditures) over expenditures (revenues)	214,497	(8,000)	(98,761)	(90,761)
Other financing sources				
Fund transfers	-	-	37,521	37,521
Net change in fund balance	214,497	(8,000)	(61,240)	(53,240)
Fund balance, beginning of year	-	(8,000)	101,423	109,423
Fund balance, end of year	<u>\$ 214,497</u>	<u>\$ (16,000)</u>	<u>\$ 40,183</u>	<u>\$ 56,183</u>
Budget basis			\$ 40,183	
Revenue accruals			<u>(40,183)</u>	
GAAP basis			<u>\$ -</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, 2007

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.



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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, 2007, which collectively comprise the City of Socorro, Texas' basic financial statements and have issued our report thereon dated August 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Socorro, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Socorro, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Socorro, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City of Socorro, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of Socorro, Texas' internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items IC 7-01, IC 7-02, IC 7-03 and IC 7-04, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Socorro, Texas' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider items IC 7-01, IC 7-02, IC 7-03 and IC 7-04 to be material weaknesses.

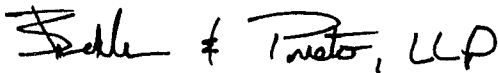
Compliance and Other Matters

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 *Governments Auditing Standards*.

We noted certain matters that we reported to management of City of Socorro, Texas in a separate letter dated August 7, 2008.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City of Socorro, Texas' management, City Council, 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.

 & Trest, LLP

August 7, 2008



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Socorro, Texas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. City of Socorro, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Socorro, Texas' management. Our responsibility is to express an opinion on City of Socorro, Texas's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Project Bravo's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Socorro, Texas' compliance with those requirements.

As described in items FA 7-01, FA 7-02, FA 7-03, FA 7-04, FA 7-05 and FA 7-06 in the accompanying schedule of findings and questioned costs, City of Socorro, Texas, did not comply with requirements related to grants management and internal controls that are applicable to its home investment partnership program and public assistance grant. Compliance with such requirements is necessary, in our opinion, for City of Socorro, Texas, to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, City of Socorro, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of City of Socorro, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Socorro, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Socorro, Texas' internal control over compliance.

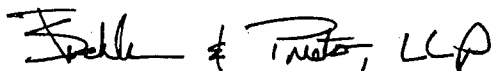
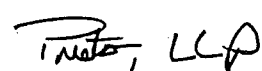
Our consideration of internal control over compliance was for the limited purpose describe in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 7-01, FA 7-02, FA 7-03, FA 7-04, FA 7-05 and FA 7-06 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items FA 7-01, FA 7-02, FA 7-03, FA 7-04, FA 7-05 and FA 7-06 to be material weaknesses.

City of Socorro, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and question costs. We did not audit City of Socorro, Texas' response and, accordingly, we express no opinion on it.

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

 & , LLP

August 7, 2008

CITY OF SOCORRO, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor/Pass Through Grantor/Program Title	CFDA No.	Contract/Grant Project/State Number	Award Amount	Expenditures
Department of Housing and Urban Development				
Passed through the Texas Departments of Housing and Community Affairs				
Home Investment Partnership Program- Contract for Deed Conversions	14.239	1000563	\$ 62,400	\$ 1,500
Home Investment Partnership Program- Homebuyers Assistance	14.239	542052	520,000	199,510
Home Investment Partnership Program- Owner Occupied Housing Assistance	14.239	1000484	148,472	<u>105,404</u>
Total Texas Departments of Housing and Community Affairs				<u>306,414</u>
Passed through the Office of Rural Community Affairs				
Community Development Programs	14.228	725809	266,596	221,745
Department of Justice				
Office of Community Oriented Policing Service (COPS) Universal Hiring Program	16.710	2003UMWX0205	190,980	23,453
Department of Homeland Security				
Public Assistance Grants	97.036	141-68636-00	210,184	<u>210,184</u>
Total expenditures of federal award				<u>\$ 761,796</u>

CITY OF SOCORRO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2007

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City of Socorro, Texas (the "City"). The City is defined in Note 1 of the City's financial Statements. All federal awards received, including those received through other agencies are included on the schedule.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 of the City's financial statements.

3. FEDERAL EXPENDITURES

The accompanying schedule of expenditures of federal awards includes all federal expenditures including the value of federal awards expended in the form of noncash assistance.

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.239
97.036

Home Investment Partnership Program
Public Assistance Grants

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee Yes No

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Reportable Conditions in Internal Control

IC 7-01 Insufficient Attention Given to Accounting and Internal Control Processes

Condition

An accounting procedures manual was not adopted and policies and procedures that adequately define accounting and reporting responsibilities among employees responsible for handling assets, liabilities, revenues and expenditures were not documented.

Criteria

Failure to implement and follow sound accounting and internal control policies and procedures increases the risk that unauthorized transactions could occur, funds could be inappropriately accounted for, and transactions could be inaccurately recorded and reported.

Cause

Inadequate accounting system and employees lack proper training and supervision.

Effect

Employees are not performing the proper accounting procedures to generate reliable financial records that can be utilized for reporting and decision making.

Recommendation

Management should continue to monitor that corrective action is being taken and that all audit findings are resolved. Management should document Accounting Department responsibilities, policies and procedures to correct existing deficiencies in the accounting and internal controls environment and to cover situations where personnel are unavailable due to vacation, illness or termination. Because the City is growing, we recommend that procedures for transaction initiation, authorization and processing be formally documented as soon as possible.

Written procedures, instructions, and assignments of duties will also prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can help to assure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in a form that management can use to make sound and effective decisions. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. It will take some time and effort for management to develop a manual; however that time and effort will be more than offset by time saved in training and supervising accounting personnel.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

IC 7-02 Budget Reconciliations

Condition

Budgeted revenues and expenditures are posted by line item on the accounting system. Actual receipts and disbursements are not being reconciled to the approved amounts after posting of the original budget and amendments. The original budget posted on the accounting system is not updated for the amendments approved throughout the year.

Criteria

Budgeted revenues and expenditures posted to the accounting system should reflect amounts approved by the City Council including the approved amendments made throughout the year.

Cause

A supervisory review process is not in place to ensure that approved original and amendments to the budget are correctly posted to the accounting records.

Effect

System reports that compare actual amounts to budgeted amounts may be misstated and erroneous decisions could be made based on these reports.

Recommendation

The City should reconcile any data entered on the system to the source documents periodically to ensure reliability of the data and usefulness of the information.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

IC 7-03 Bank Reconciliations

Condition

Bank accounts were not reconciled promptly after the end of each month. The bank reconciliations had not been prepared as of the time of the start of the audit. In addition, checks outstanding for a considerable time are not periodically investigated. We noted that some checks drawn on the M&O account had been outstanding for long periods of time, in some instances for several months. Through discussions with accounting management, it was determined that the status of these "old" outstanding checks had not been investigated or considered by accounting personnel. There were significant and

numerous journal entries as a result of preparing the reconciliations, including one for a bond payment in the amount of \$118,026 that had not been recorded as a reduction in cash.

Criteria

The City has established operational procedures regarding the reconciliation of cash accounts and the process concerning the investigation of old outstanding items.

Cause

There was a high level turnover in the Senior Accountant position and proper oversight was not exercised.

Effect

The financial reports generated by the accounting system may not be as meaningful since there is little reliance in that the cash transactions were recorded properly. The true cash balance could not have been known throughout the year. In addition, errors and other problems might not be recognized on a timely basis.

Recommendation

All bank accounts should be reconciled each month prior to preparation of the monthly financial statements. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. The lists of outstanding checks should be reviewed regularly and all checks not returned by the banks within a reasonable period of time be investigated. To aid in the preparation of bank reconciliations and to reflect an accurate cash balance in the financial statements, all checks outstanding more than one year should be investigated and written off. Prompt preparation of bank reconciliations will ensure that scheduled bond payments are recorded in a timely manner and properly reflected in the financial records.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

IC 7-04 Expenditures recorded in incorrect fund

Condition

Accrued expenditures for street maintenance were incorrectly reflected in the debt service fund.

Criteria

The City has established operating policies and procedures regarding the allocation and classification of expenditures to the respective funds.

Cause

There was a high level of turnover in the Senior Accountant position and proper oversight was not

exercised.

Effect

The general ledger and subsidiary records reflected expenditures in the incorrect funds.

Recommendation

The City must develop and implement financial information oversight procedures to ensure that the data generated by the accounting system is reliable.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FA 7-01 Lack of Internal Controls Over Compliance

Condition

The City does not have a grant management process in fiscal year 2007 that meets all of the administrative requirements of OMB Circular A-133.

- There is little communication between the departments receiving the grants and the Finance Office. The Finance Office is unaware of some of the grants that the City receives.
- The City has no formal method of ensuring that all grants are being properly reported on the Schedule of Expenditures of Federal Awards in the City's Single Audit Report.
- The City does not reconcile grant expenditures per the Schedule of Expenditures of Federal Awards in the City's Single Audit Report or the federal financial reports to the general ledger for all the grants.

Criteria

OMB Circular A-133 defines internal control pertaining to the compliance requirements for federal programs as a process effected by an entity's management and other personnel designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:

1. Transactions are properly recorded and accounted for to:
 - a. Permit the preparation of reliable financial statements and federal reports.
 - b. Maintain accountability over assets.
 - c. Demonstrate compliance with laws, regulations, and other compliance requirements.
2. Transactions are executed in compliance with:
 - a. The laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on a federal program.
 - b. Any other laws and regulations that are identified in the Compliance Supplement.
3. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Cause

The City does not have a grant management process in place that meets all of the administrative requirements of OMB A- 133.

Effect

The City could not prepare the Schedule of Expenditures of Federal Awards. The lack of centralized information could result in the City being unaware of grant requirements and responsibilities, such as matching requirements, reporting requirements and other compliance requirements.

Recommendation

In order to improve the grant management process, we recommend the following:

1. The City should designate one department such as the Finance Department to maintain and organize grant information. This would result in the City having a better understanding of grants that were received and the City's responsibilities for the receipt of federal funds.
2. The City should maintain (centrally or coordinated through responsible departments) a summary

of all federal funds received during the year, including important information, such as CFDA numbers, federal regulations, etc. This will ensure that all grant information is accurate and complete on the Schedule of Expenditures of Federal Awards and that the City is in compliance with grant regulations and requirements.

3. All federal financial reporting should be completed from or reconciled to the central accounting system.
4. City personnel should reconcile all grant expenditures to the City's general ledger to ensure that sufficient funds remain to fund program expenditures.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

FA 7-02 Participant Files

Condition

Some of the participant activity files for the Homebuyers Assistance Program prepared and maintained by El Paso Collaborative, an independent contractor, could not be easily located.

Criteria

The granting agencies, and operating policies and procedures, establish that records pertaining to awards offered must be maintained in a safe and available location.

Cause

The Grants Department was not in operation during a substantial part of the fiscal year under audit, following a decision made by the Mayor and City Council.

Effect

The participant files were not readily available for inspection for audit purposes, and for internal department review, when necessary.

Recommendation

A review of the participant files generated and maintained by El Paso Collaborative should be reviewed for adequacy of file content and to ensure that indeed a participant file exists.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

FA 7-03 Claims for Reimbursement

Condition

The first, second, and fourth quarterly "requests for draw" (reimbursement request), submitted on February 14, 2007, May 14, 2007, and March 4, 2008, respectively, for the Office of Community Oriented Policing Services (COPS) program were not followed-up to ensure their timely reimbursement. The reimbursements were not received until April 2008.

Criteria

The granting agencies, and operating policies and procedures, establish that disbursed amounts be timely submitted in a request for reimbursement.

Cause

The Grants Department was not in operation during a substantial part of the fiscal year under audit, following a decision made by the Mayor and City Council.

Effect

The City incurred, and paid, expenditures that had to be made available from general fund sources since the award contract states that expenditures must be paid first before a claim for refund is submitted.

Recommendation

The City must take the necessary steps to ensure that claims for refund submitted to the granting agencies are made followed-up in a timely matter to limit the time between disbursement and receipt of funds and avoid potential economic stress.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

FA 7-04 FEMA grant management

Condition

The City did not have readily available the support for the expenditures incurred and paid on the FEMA Disaster Assistance Program. Consequently, the City was unable to determine its status with respect to the program reporting requirements.

Criteria

The directives, rules, and regulations established and prescribed by the granting agency.

Cause

Lack of proper oversight by the department personnel in charge of administering the FEMA program.

Effect

The expenditures incurred were not properly coded to enable the accounting personnel to record them to the appropriate general ledger accounts.

Recommendation

The City must develop and implement formal policies and procedures for the administration of grant awards to ensure that the expenditures incurred are properly recorded in the books of record and enable management to determine their completion status.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

FA 7-05 Submission of the Reporting Package**Condition**

The audit report along with the data collection form is due to the federal government within nine months after the end of the fiscal year. The audit report was not completed until August 2008 and, as such, was not submitted on a timely basis.

Criteria

Circular A-133, Audits of States, Local Governments and Non-profit Organizations issued by the U.S. Office of Management and Budget requires that the audit report along with the data collection form be submitted by nine months after the end of the fiscal year end. In the case of the City audit for the fiscal year ended September 30, 2007 that due date was June 30, 2008.

Cause

There was a high level of turnover in the Senior Accountant position and proper oversight was not exercised.

Effect

Non-compliance with federal requirements, such as the submission of the single audit report and the data collection form, could jeopardize future funding from the federal government and pass-through entities.

Recommendation

The City must make the necessary provisions to ensure that the books of record from where the financial data is derived is maintained properly in a timely manner.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

FA 7-06 Bank Reconciliations

Condition

Bank accounts were not reconciled promptly after the end of each month. The bank reconciliations had not been prepared as of the time of the start of the audit. In addition, checks outstanding for a considerable time are not periodically investigated. We noted that some checks drawn on the M&O account had been outstanding for long periods of time, in some instances for several months. Through discussions with accounting management, it was determined that the status of these "old" outstanding checks had not been investigated or considered by accounting personnel. There were significant and numerous journal entries as a result of preparing the reconciliations, including one for a bond payment in the amount of \$118,026 that had not been recorded as a reduction in cash.

Criteria

The City has established operational procedures regarding the reconciliation of cash accounts and the process concerning the investigation of old outstanding items.

Cause

There was a high level turnover in the Senior Accountant position and proper oversight was not exercised.

Effect

The financial reports generated by the accounting system may not be as meaningful as necessary since there is little reliance in that the cash transactions were recorded properly. The true cash balance could not have been known throughout the year. In addition, errors and other problems might not be recognized on a timely basis.

Recommendation

All bank accounts should be reconciled each month prior to preparation of the monthly financial statements. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. The lists of outstanding checks should be reviewed regularly and all checks not returned by the banks within a reasonable period of time be investigated. To aid in the preparation of bank reconciliations and to reflect an accurate cash balance in the financial statements, all checks outstanding more than one year should be investigated and written off. Prompt preparation of bank reconciliations will ensure that scheduled bond payments are recorded in a timely manner and properly reflected in the financial records.

Management Response

As of the date of issuance of the financial statements, management is in the process of preparing their response and corrective action plan. Management believes it will have its responses and corrective action plan prepared by September 30, 2008.

SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2007**

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Property taxes	\$ 490,796	\$ 494,250	\$ 509,715	\$ 15,465
Interest income	8,414	400	3,588	3,188
Total revenues	<u>499,210</u>	<u>494,650</u>	<u>513,303</u>	<u>18,653</u>
Expenditures/outflows:				
General government	8,982	3,381	9,990	(6,609)
Principal payments	321,515	316,822	368,599	(51,777)
Interest payments	160,299	174,447	159,646	14,801
Total expenditures	<u>490,796</u>	<u>494,650</u>	<u>538,235</u>	<u>(43,585)</u>
Net change in fund balance	8,414	-	(24,932)	(24,932)
Fund balance, beginning of year	<u>30,161</u>	<u>30,161</u>	<u>57,868</u>	<u>27,707</u>
Fund balance, end of year	<u>\$ 38,575</u>	<u>\$ 30,161</u>	<u>\$ 32,936</u>	<u>\$ 2,775</u>
Budget basis			\$ 32,936	
Revenue accruals			(11,211)	
GAAP basis			<u>\$ 21,725</u>	

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 2007**

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Proceeds from bonds	\$ 500,000	\$ 1,125,000	\$ -	\$ (1,125,000)
Interest income	66,564	-	66,518	66,518
Other income	-	-	-	-
Total revenues	<u>566,564</u>	<u>1,125,000</u>	<u>66,518</u>	<u>(1,058,482)</u>
Expenditures/outflows:				
General government	500,000	-	-	-
Public works	1,000,000	1,125,000	347,021	777,979
Planning/zoning	200,000	-	26,339	(26,339)
Total expenditures	<u>1,700,000</u>	<u>1,125,000</u>	<u>373,360</u>	<u>751,640</u>
Net change in fund balance	(1,133,436)	-	(306,842)	306,842
Fund balance, beginning of year	<u>1,860,518</u>	<u>1,860,518</u>	<u>1,471,315</u>	<u>389,203</u>
Fund balance, end of year	<u>\$ 727,082</u>	<u>\$ 1,860,518</u>	<u>\$ 1,164,473</u>	<u>\$ 696,045</u>

See accompanying notes to financial statements.