

# **City of Socorro, Texas**

Basic Financial Statements,  
Required Supplementary Information  
and Supplementary Information  
For the Year Ended September 30, 2008  
and Independent Auditors' Report

**CITY OF SOCORRO, TEXAS**  
**SEPTEMBER 30, 2008**  
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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, 2008, 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, 2008, 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 June 26, 2009, 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 29, 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Budgetary Comparison Schedule - Debt Service Fund, 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.

*Socorro & Tinto, LLP*

June 26, 2009

**CITY OF SOCORRO, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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, 2008. Please read it in conjunction with the City's financial statements and accompanying footnotes, which follow this section.

**FINANCIAL HIGHLIGHTS FISCAL YEAR 2008**

- General Fund revenues were approximately 1% more than projected.
- General fund expenses were held to approximately 78% of budget, which helped result in an actual net increase of \$686,638 to the General Fund end of year balance.
- For the end of fiscal year 2008, net assets were reported at approximately \$7,700,000.

**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 2008 are \$7,730,760 and at fiscal year-end 2007 are \$7,045,590 reflecting an increase of \$685,170. 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, 2008 and 2007.

<b>Summary of Total Assets:</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 4,050,641	\$ 3,468,330
Restricted cash	1,339,960	1,775,944
Receivables (taxes, grants, other miscellaneous)	990,430	962,357
Capital assets, net of accumulated depreciation	5,095,959	5,089,595
Other assets	2,631	965
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 11,479,621</u>	<u>\$ 11,297,191</u>
 <b>Summary of Liabilities:</b>		
Short-term liabilities	\$ 518,126	\$ 648,114
Long-term liabilities	3,230,735	3,603,487
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>\$ 3,748,861</u>	<u>\$ 4,251,601</u>
 <b>Summary of Net Assets:</b>		
Invested in capital assets, net of related debt	\$ 1,865,224	\$ 1,486,108
Restricted for debt service	135,833	21,725
Restricted for capital outlay	783,000	1,340,533
Unrestricted	4,946,703	4,197,224
	<u>                    </u>	<u>                    </u>
Total net assets	<u>\$ 7,730,760</u>	<u>\$ 7,045,590</u>

A large portion of the City's net assets (almost 24%) 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 \$495,447, of which the majority was for land and infrastructure. The City recorded \$489,083 in depreciation on its capital assets during FY 2008.

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 2008 and 2007, respectively, the City collected \$6,291,713 and \$6,434,644 in revenues from all sources, while expending \$5,606,543 and \$5,873,127, resulting in a net increase of assets of \$685,170 and \$561,517.

The tables below summarize the years ended September 30, 2008 and 2007 revenues and expenditures for the City.

<b>Program Revenue Summary:</b>	<b>2008</b>	<b>2007</b>
Municipal Court fines and fees	\$ 768,744	\$ 683,008
Planning and zoning fees	192,921	175,620
Operating grants and contributions	254,133	898,129
	<u>                    </u>	<u>                    </u>
Total program revenues	\$ 1,215,798	\$ 1,756,757

<b>General Revenue Summary:</b>		
Property taxes- general purpose	\$ 2,728,324	\$ 2,637,532
Property taxes- debt service	687,885	497,293
Sales tax	956,884	733,655
Franchise tax	390,110	399,471
Interest income	149,887	236,444
Miscellaneous income	162,825	173,492
	<u>                    </u>	<u>                    </u>
Total general revenue	\$ 5,075,915	\$ 4,677,887

<b>Expenditures By Function:</b>		
General government	\$ 1,253,036	\$ 1,517,698
Public works	1,561,072	1,359,405
Municipal Court	314,264	359,016
Public Safety	1,604,789	1,602,417
Planning and zoning	257,571	308,900
Public Health	334,280	317,494
Special Projects	5,354	118,785
Rio Vista Community Center	79,376	64,096
Human Resources	10,209	43,994
Interest on long-term debt	186,592	181,322
	<u>                    </u>	<u>                    </u>
Total expenditures	\$ 5,606,543	\$ 5,873,127

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 2008 the City's increase in fund balance was \$686,638 versus a budgeted decrease of \$649,641 in the General Fund. This variance, while high, is reflective of several unforeseeable issues developing during FY 2008, including receiving approximately \$281,000 more in property tax revenue and approximately \$223,000 more in sales tax revenue compared to 2007. In addition, the City had numerous vacant positions that were not filled during FY 2007 and/or were not filled until the end of FY 2008, but were budgeted for the entire year. The capital projects fund had significant variances from budget as a certificate of obligation was budgeted but not issued in FY 2008. These issues are not considered to be long term detriments to the City's progress and the funds not utilized in FY 2008 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 \$783,000 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, 2008

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### ASSETS:

Cash and cash equivalents	\$ 4,050,641
Restricted cash	1,339,960
Accounts receivable - grantors	135,137
Accounts receivable - taxes	855,293
Capital assets, net of accumulated depreciation	5,095,959
Other assets	<u>2,631</u>
Total assets	<u>\$ 11,479,621</u>

### LIABILITIES:

Accounts payable	\$ 245,326
Accrued interest payable	73,261
Accrued expenses	144,703
Accrued compensated absences	54,836
Long-term liabilities:	
Due within one year	307,346
Due in more than one year	<u>2,923,389</u>
Total liabilities	<u>\$ 3,748,861</u>

### NET ASSETS:

Invested in capital assets, net of related debt	\$ 1,865,224
Restricted for debt service	135,833
Restricted for capital outlay	783,000
Unrestricted	<u>4,946,703</u>
Total net assets	<u>\$ 7,730,760</u>

See accompanying notes to financial statements.

# CITY OF SOCORRO, TEXAS

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2008

Functions/Programs:	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services Fees and Fines	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,253,036	\$ -	\$ -	\$ -	\$ (1,253,036)
Public works	1,561,072	-	-	-	(1,561,072)
Municipal court	314,264	768,744	-	-	454,480
Public safety	1,604,789	-	-	-	(1,604,789)
Planning/zoning	257,571	192,921	-	-	(64,650)
Public health	334,280	-	-	-	(334,280)
Special projects	5,354	-	254,133	-	248,779
Rio Vista Community Center	79,376	-	-	-	(79,376)
Human resources	10,209	-	-	-	(10,209)
Interest on long-term debt	186,592	-	-	-	(186,592)
	<u>\$ 5,606,543</u>	<u>\$ 961,665</u>	<u>\$ 254,133</u>	<u>\$ -</u>	<u>(4,390,745)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purpose					2,728,324
Property taxes, levied for debt service					687,885
Sales taxes					956,884
Franchise taxes					390,110
Interest income					149,887
Miscellaneous					162,825
Total general revenues					<u>5,075,915</u>
Change in net assets					<u>685,170</u>
Net assets, beginning of year					<u>7,045,590</u>
Net assets, end of year					<u>\$ 7,730,760</u>

See accompanying notes to financial statements.

# CITY OF SOCORRO, TEXAS

## BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2008

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 4,050,641	\$ -	\$ -	\$ -	\$ 4,050,641
Restricted cash	-	127,260	429,700	783,000	1,339,960
Accounts receivable - Grantors	-	-	135,137	-	135,137
Accounts receivable - Taxes	687,363	167,930	-	-	855,293
Due from other funds	2,655,500	598,691	1,879,474	194,773	5,328,438
Other assets	2,631	-	-	-	2,631
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 7,396,135</u>	<u>\$ 893,881</u>	<u>\$ 2,444,311</u>	<u>\$ 977,773</u>	<u>\$ 11,712,100</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 190,131	\$ -	\$ 22,518	\$ 32,677	\$ 245,326
Accrued expenses	143,976	-	727	-	144,703
Due to other funds	2,030,055	597,111	2,283,859	417,413	5,328,438
Deferred revenues	658,737	160,937	116,824	-	936,498
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>3,022,899</u>	<u>758,048</u>	<u>2,423,928</u>	<u>450,090</u>	<u>6,654,965</u>
<b>FUND BALANCES:</b>					
Reserved for:					
Principal and interest payments	-	135,833	-	-	135,833
Capital outlays	-	-	-	527,683	527,683
Unreserved	4,373,236	-	20,383	-	4,393,619
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>4,373,236</u>	<u>135,833</u>	<u>20,383</u>	<u>527,683</u>	<u>5,057,135</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 7,396,135</u>	<u>\$ 893,881</u>	<u>\$ 2,444,311</u>	<u>\$ 977,773</u>	<u>\$ 11,712,100</u>

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, 2008

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Total fund balances	\$ 5,057,135
Amounts reported in the statement of net assets are different because:	
Capital assets of \$12,383,123 accumulated depreciation of \$(7,287,164), are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail.	5,095,959
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(73,261)
Deferred revenues are not available to pay current-period expenditures and, therefore, are deferred in the funds. These are the deferred property taxes of \$819,674 and deferred grant revenue of \$116,824.	936,498
Long-term liabilities of \$(3,230,735) 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 \$(54,836).	<u>(3,285,571)</u>
Net assets of governmental activities	<u>\$ 7,730,760</u>

See accompanying notes to financial statements.

# CITY OF SOCORRO, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES:</b>					
Property taxes	\$ 2,727,419	\$ 657,398	\$ -	\$ -	\$ 3,384,817
Sales taxes	956,884	-	-	-	956,884
Franchise taxes	390,110	-	-	-	390,110
Planning and zoning fees	192,921	-	-	-	192,921
Fines	768,744	-	-	-	768,744
Interest income	105,834	4,450	10,375	29,228	149,887
Grants	-	-	137,309	-	137,309
Other income (expense)	162,968	-	(143)	-	162,825
<b>Total revenues</b>	<b>5,304,880</b>	<b>661,848</b>	<b>147,541</b>	<b>29,228</b>	<b>6,143,497</b>
<b>EXPENDITURES:</b>					
General government	1,185,850	15,764	40,372	156	1,242,142
Public works	862,168	-	78,614	615,156	1,555,938
Municipal court	302,994	-	3,762	-	306,756
Public safety	1,513,304	-	513	-	1,513,817
Planning/zoning	336,653	-	-	38,833	375,486
Public health	334,298	-	-	-	334,298
Special projects	14,416	-	3,897	-	18,313
Rio Vista Community Center	58,336	-	-	11,873	70,209
Human resources	10,223	-	-	-	10,223
Principal payments	-	372,752	-	-	372,752
Interest payments	-	159,224	-	-	159,224
<b>Total expenditures</b>	<b>4,618,242</b>	<b>547,740</b>	<b>127,158</b>	<b>666,018</b>	<b>5,959,158</b>
Excess (deficiency) of revenues over (under) expenditures	686,638	114,108	20,383	(636,790)	184,339
Fund balances, beginning of year	3,686,598	21,725	-	1,164,473	4,872,796
<b>Fund balances, end of year</b>	<b>\$ 4,373,236</b>	<b>\$ 135,833</b>	<b>\$ 20,383</b>	<b>\$ 527,683</b>	<b>\$ 5,057,135</b>

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, 2008

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Net change in fund balances	\$ 184,339
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 \$495,446 exceeded depreciation of \$(489,082) in the current period.	6,364
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 \$31,393 and deferred grant revenue of \$116,824.	148,217
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.	866
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.	(27,368)
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 \$372,752 exceeded capital lease financing of \$0.	<u>372,752</u>
Change in net assets of governmental activities	<u>\$ 685,170</u>

See accompanying notes to financial statements.

# CITY OF SOCORRO, TEXAS

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2008

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### 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, 2008.

**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 2009.

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. 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.

GASB has issued Statement No. 52, "*Land Held as Investments by Endowments*." This statement was issued in June 2007 and is effective for Phase III governments in fiscal year 2009.

GASB has issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". This statement was issued in June 2008 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, 2008:

<b>Bank deposits:</b>	
General Fund	\$ 3,964,446
Debt Service Fund	127,260
Special Revenue Fund	429,700
Capital Projects Fund	<u>783,000</u>
Total Cash and Deposits	<u>\$ 5,304,406</u>

Type of Security	Market Value
Total cash and deposits	\$ 5,304,406
Total cash equivalents	<u>86,195</u>
Total deposits and cash equivalents	<u>\$ 5,390,601</u>

As of September 30, 2008, the City had the following cash equivalents:

Investment	Weighted Average Maturity	Fair Value
LOGIC	37 days	\$ <u>86,195</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, 2008, the carrying amount of the City's deposits was \$5,304,406 and bank balances equaled \$955,865. 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 \$831,526 as of September 30, 2008.

**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	\$ <u>135,137</u>	\$ <u>-</u>	\$ <u>135,137</u>

**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 \$698,990,912 for the year ended September 30, 2008. 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 2007-2008 tax rates were \$.459595, per \$100 of assessed valuation. The City incurred expenditures of \$56,476 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2008.

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, 2008 is \$819,674 of deferred property tax revenue.

#### 4. CAPITAL ASSETS

*Changes in Capital Assets*—Capital assets activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	\$ 540,085	\$ 127,600	\$ -	\$ 667,685
Capital assets being depreciated:				
Buildings and improvements	670,633	87,517	-	758,150
Machinery and equipment	725,004	-	-	725,004
Vehicles	1,122,063	15,820	-	1,137,883
Office furniture and equipment	153,907	-	-	153,907
Software	38,779	10,424	-	49,203
Infrastructure	8,429,888	254,086	-	8,683,974
Leasehold improvements	207,317	-	-	207,317
Total capital assets being depreciated at historical cost	<u>11,347,591</u>	<u>367,847</u>	<u>-</u>	<u>11,715,438</u>
Less accumulated depreciation for:				
Buildings and improvements	(242,840)	(39,360)	-	(282,200)
Machinery and equipment	(407,623)	(79,837)	-	(487,460)
Vehicles	(732,793)	(101,220)	-	(834,013)
Office furniture and equipment	(107,205)	(19,796)	-	(127,001)
Software	(29,600)	(7,431)	-	(37,031)
Infrastructure	(5,243,573)	(233,625)	-	(5,477,198)
Leasehold improvements	(34,447)	(7,814)	-	(42,261)
Total accumulated depreciation	<u>(6,798,081)</u>	<u>(489,083)</u>	<u>-</u>	<u>(7,287,164)</u>
Other capital assets, net	<u>4,549,510</u>	<u>(121,236)</u>	<u>-</u>	<u>4,428,274</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,089,595</u>	<u>\$ 6,364</u>	<u>\$ -</u>	<u>\$ 5,095,959</u>

**Depreciation Expense**—Depreciation expense was charged to functions of the government as follows, for the year ended September 30, 2008:

General government	\$ 21,450
Public works	349,758
Municipal court	7,561
Public safety	91,372
Planning/zoning	9,767
Rio Vista Community Center	<u>9,175</u>
	<u>\$ 489,083</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, 2008, employees had approximately 4,539 hours of accumulated vacation leave, totaling \$54,836.

**6. LONG-TERM LIABILITIES**

**Notes Payable and Capital Leases**—Notes payable were issued to pay for street improvements at a cost of \$851,000 which are collateralized by a % of sales and ad valorem taxes. The notes payable are charged interest at 3.8% to 5.0% and mature in 2014. During the year ended September 30, 2008, 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
2009	\$ -	\$ 12,103	\$ 110,146	\$ 9,205
2010	59,039	12,103	85,389	4,726
2011	61,283	9,860	-	-
2012	63,611	7,531	-	-
2013	66,029	5,114	-	-
2014	<u>68,538</u>	<u>2,604</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 318,500</u>	<u>\$ 49,315</u>	<u>\$ 195,535</u>	<u>\$ 13,931</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, 2008, rental payments under such leases totaled \$6,228. The following is a schedule of future minimum lease payments as of September 30, 2008:

<b>Year Ending September 30:</b>	<b>Operating Leases</b>
2009	\$ 6,684
2010	6,684
2011	<u>6,000</u>
Totals	<u>\$ 19,368</u>

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

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

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

The annual debt service requirements to maturity for bonded debt as of September 30, 2008, are as follows:

<b>Year Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>
2009	\$ 197,200	\$ 120,594
2010	206,400	111,465
2011	216,600	101,836
2012	264,100	90,617
2013	281,700	77,677
2014-2018	743,700	319,166
2019-2023	657,000	146,970
2024	<u>150,000</u>	<u>4,500</u>
Totals	<u>\$ 2,716,700</u>	<u>\$ 972,825</u>



**Changes in Long-term Debt**—The following is a summary of changes in long-term debt for the year ended September 30, 2008:

	<b>Balance October 1, 2007</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance September 30, 2008</b>	<b>Due Within One Year</b>
Notes payable	\$ 421,485	\$ -	\$ (102,985)	\$ 318,500	\$ -
Capital leases	272,202	-	(76,667)	195,535	110,146
Certificates of obligation	2,909,800	-	(193,100)	2,716,700	197,200
Compensated absences	55,702	72,761	(73,627)	54,836	54,836
<b>Total</b>	<b>\$ 3,659,189</b>	<b>\$ 72,761</b>	<b>\$ (446,379)</b>	<b>\$ 3,285,571</b>	<b>\$ 362,182</b>

**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, 2008, reported on the governmental fund balance sheet:

	<b>Due From</b>	<b>Due To</b>
General Fund:		
Special Revenue Fund	\$ 2,215,630	\$ 1,395,718
Capital Projects Fund	365,080	114,044
Debt Service Fund	74,790	520,293
<b>Total General Fund</b>	<b>\$ 2,655,500</b>	<b>\$ 2,030,055</b>
Special Revenue Fund:		
General Fund	\$ 1,395,718	\$ 2,215,630
Capital Projects Fund	3,168	68,229
Debt Service Fund	480,588	-
<b>Total Special Revenue Fund</b>	<b>\$ 1,879,474</b>	<b>\$ 2,283,859</b>
Debt Service Fund:		
General Fund	\$ 520,293	\$ 74,790
Special Revenue Fund	-	480,588
Capital Projects Fund	78,398	41,733
<b>Total Debt Service Fund</b>	<b>\$ 598,691</b>	<b>\$ 597,111</b>

Capital Projects Fund:		
General Fund	\$ 114,044	\$ 335,847
Special Revenue Fund	68,229	3,168
Debt Service Fund	12,500	78,398
	<u>          </u>	<u>          </u>
Total Capital Projects Fund	\$ 194,773	\$ 417,413
	<u>          </u>	<u>          </u>

**9. 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, 2008 totaled \$2,970 and the employees contributed \$26,436.

**10. 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, 2008.

**11. 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, 2008.

**12. 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.

**13. 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, 2007 through August 31, 2008, and is in the amount of \$321,479.

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 \$18,000 of the manager's salary for the year ended August 31, 2008.

**14. SUBSEQUENT EVENT**

On October 21, 2008, the City issued \$5,000,000 City of Socorro Combination Tax and Revenue Certificates of Obligation, Series 2008.

**REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF SOCORRO, TEXAS

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2008

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues/inflows:</b>				
Property taxes	\$ 3,158,233	\$ 3,158,233	\$ 2,728,325	\$ (429,908)
Sales taxes	621,925	621,925	956,884	334,959
Franchise taxes	458,800	458,800	390,110	(68,690)
Planning and zoning fees	262,990	262,990	192,921	(70,069)
Fines	620,000	620,000	768,744	148,744
Interest income	140,972	140,972	105,834	(35,138)
Other income	-	-	162,968	162,968
<b>Total revenues</b>	<b>5,262,920</b>	<b>5,262,920</b>	<b>5,305,786</b>	<b>42,866</b>
<b>Expenditures/outflows:</b>				
General government	1,901,457	1,901,457	1,185,850	715,607
Public works	1,069,492	1,069,492	862,168	207,324
Municipal court	211,256	211,256	302,994	(91,738)
Public safety	1,703,598	1,703,598	1,513,304	190,294
Planning/zoning	404,128	404,128	336,653	67,475
Public health	351,410	351,410	334,298	17,112
Special projects	118,751	118,751	14,416	104,335
Rio Vista Community Center	73,829	73,829	58,336	15,493
Human resources	78,640	78,640	10,223	68,417
<b>Total expenditures</b>	<b>5,912,561</b>	<b>5,912,561</b>	<b>4,618,242</b>	<b>1,294,319</b>
Excess of revenues over expenditures	(649,641)	(649,641)	687,544	1,337,185
Fund balance, beginning of year	3,686,598	3,686,598	3,686,598	-
Fund balance, end of year	<b>\$ 3,036,957</b>	<b>\$ 3,036,957</b>	<b>\$ 4,374,142</b>	<b>\$ 1,337,185</b>
			Budget basis	\$ 4,374,142
			Revenue accruals	(906)
			Expenditure accruals	-
			<b>GAAP basis</b>	<b>\$ 4,373,236</b>

See accompanying notes to required supplementary information.

# CITY OF SOCORRO, TEXAS

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND YEAR ENDED SEPTEMBER 30, 2008

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues/inflows:</b>				
Interest income	\$ 9,660	\$ 9,660	\$ 10,375	\$ 715
Grants	468,998	468,998	254,133	(214,865)
Other income	51,000	51,000	(143)	(51,143)
<b>Total revenues</b>	<b>529,658</b>	<b>529,658</b>	<b>264,365</b>	<b>(265,293)</b>
<b>Expenditures/outflows:</b>				
General government	10,000	10,000	40,372	(30,372)
Municipal court	41,000	41,000	3,762	37,238
Public safety	214,443	214,443	513	213,930
Special projects	-	-	3,897	(3,897)
Public works	254,175	254,175	78,614	175,561
<b>Total expenditures</b>	<b>519,618</b>	<b>519,618</b>	<b>127,158</b>	<b>392,460</b>
Excess of revenues (expenditures) over expenditures (revenues)	10,040	10,040	137,207	127,167
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ 10,040	\$ 10,040	\$ 137,207	\$ 127,167
			Budget basis	\$ 137,207
			Revenue accruals	(116,824)
			GAAP basis	\$ 20,383

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, 2008

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### 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, 2008, which collectively comprise the City of Socorro, Texas' basic financial statements and have issued our report thereon dated June 26, 2009. 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 responses, as items 2008-01 and 2008-02, 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.

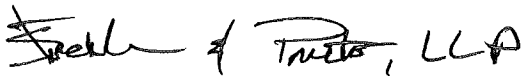
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2008-01 to be a material weakness.

#### 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2008-3.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.



June 26, 2009

# CITY OF SOCORRO, TEXAS

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED SEPTEMBER 30, 2008

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### 2008-01: 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. There were significant and numerous journal entries as a result of preparing the reconciliations.

#### Criteria

The City has established operational procedures regarding the reconciliation of cash accounts and effective internal controls require bank reconciliations be prepared on a monthly basis.

**Cause**

There was a high level turnover in the Senior Accountant position in the past 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. 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**

The City of Socorro hired a Senior Accountant on November 10, 2008. The Senior Accountant has completed the six (6) month probationary period providing quality work including the reconciliation of all bank accounts for fiscal year 2008. The Senior Accountant for Fiscal Year ending September 30, 2009 performed monthly reconciliations on all bank accounts and is up-to-date except the General Fund, which will be on cycle as of September 1, 2009.

**2008-02: 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 in the past and proper oversight was not exercised.

**Effect**

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

**Recommendation**

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

**Management Response**

The Senior Accountant has developed a report including the items eligible to be paid for by I&S tax revenue and a time schedule for payments, in conjunction with the Financial Advisor, of the City of Socorro. All street maintenance expenditures are currently being charged to either General Fund or Capital Projects Fund.

### **2008 3: Public Funds Investment Act Compliance**

#### **Condition**

At September 30, 2008, the City's deposits with Wells Fargo have Stagecoach Sweep accounts that were not undercollateralized. The M&O account had a balance of \$3,800,902 and was collateralized by \$3,787,964 of securities and the Capital Projects Fund account had a balance of \$712,754 and was collateralized by \$705,607 of securities.

#### **Criteria**

The Texas Public Funds Investment Act and the City's investment policy require that bank deposits be collateralized at 100% and 102%, respectively, of the uninsured balance.

#### **Effect**

The City is not in compliance with the Public Funds Investment Act or its investment policy. Also, having uncollateralized deposits subjects the City to additional risks.

#### **Cause**

There was turnover in the accounting department and proper oversight was not exercised.

#### **Recommendation**

The City should also bring itself into compliance with the Public Funds Investment Act by requiring its financial institutions secure the City's deposits with allowable collateral.

#### **Management Response**

The City of Socorro will ensure, in the future, that all deposits be collateralized.

**SUPPLEMENTARY INFORMATION**

# CITY OF SOCORRO, TEXAS

## SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND YEAR ENDED SEPTEMBER 30, 2008

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues/inflows:</b>				
Property taxes	\$ 620,102	\$ 620,102	\$ 687,885	\$ 67,783
Interest income	10,542	10,542	4,450	(6,092)
Total revenues	<u>630,644</u>	<u>630,644</u>	<u>692,335</u>	<u>61,691</u>
<b>Expenditures/outflows:</b>				
General government	20,024	20,024	15,764	4,260
Principal payments	449,195	449,195	372,752	76,443
Interest payments	161,425	161,425	159,224	2,201
Total expenditures	<u>630,644</u>	<u>630,644</u>	<u>547,740</u>	<u>82,904</u>
Net change in fund balance	-	-	144,595	144,595
Fund balance, beginning of year	<u>21,725</u>	<u>21,725</u>	<u>21,725</u>	-
Fund balance, end of year	<u>\$ 21,725</u>	<u>\$ 21,725</u>	<u>\$ 166,320</u>	<u>\$ 144,595</u>
			Budget basis	\$ 166,320
			Revenue accruals	<u>(30,487)</u>
			GAAP basis	<u>\$ 135,833</u>

See accompanying notes to financial statements.

**CITY OF SOCORRO, TEXAS**

**SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND  
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budget Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues/inflows:</b>				
Proceeds from bonds	\$ 1,750,000	\$ 1,750,000	\$ -	\$ (1,750,000)
Interest income	68,522	68,522	29,228	(39,294)
Other income	-	-	-	-
Total revenues	<u>1,818,522</u>	<u>1,818,522</u>	<u>29,228</u>	<u>(1,789,294)</u>
<b>Expenditures/outflows:</b>				
General government	500,000	500,000	156	499,844
Public works	1,050,000	1,050,000	615,156	434,844
Planning/zoning	200,000	200,000	38,833	161,167
Rio Vista Community Center	-	-	11,873	(11,873)
Total expenditures	<u>1,750,000</u>	<u>1,750,000</u>	<u>666,018</u>	<u>1,083,982</u>
Net change in fund balance	68,522	68,522	(636,790)	(705,312)
Fund balance, beginning of year	<u>1,164,473</u>	<u>1,164,473</u>	<u>1,164,473</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,232,995</u>	<u>\$ 1,232,995</u>	<u>\$ 527,683</u>	<u>\$ (705,312)</u>

See accompanying notes to financial statements.