

City of Socorro, Texas

Basic Financial Statements,
Required Supplementary Information
and Supplementary Information
For the Year Ended September 30, 2009
and Independent Auditors' Report

CITY OF SOCORRO, TEXAS
SEPTEMBER 30, 2009
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INDEPENDENT AUDITORS' REPORT

To Honorable Mayor Guillermo Gandara Sr.
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, 2009, 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, 2009, 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 28, 2010, 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.

Schell & Truitt, LLP

June 28, 2010

**CITY OF SOCORRO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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, 2009. Please read it in conjunction with the City's financial statements and accompanying footnotes, which follow this section.

FINANCIAL HIGHLIGHTS FISCAL YEAR 2009

- General Fund revenues were approximately 1% less than projected due to state of the economy.
- General fund expenses were held to approximately 91% of the actual budget, which helped result in an actual net increase of \$430,690 to the General Fund end of year balance.
- For the end of fiscal year 2009, net assets were reported at approximately \$7,800,000.

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 2009 are \$7,840,720 and at fiscal year-end 2008 are \$7,491,834, as restated, reflecting an increase of \$348,886. 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, 2009 and 2008.

Summary of Total Assets:	2009	2008
Cash and cash equivalents	\$ 4,435,172	\$ 4,050,641
Restricted cash	4,821,641	1,339,960
Receivables (taxes, grants, other miscellaneous)	915,826	990,430
Capital assets, net of accumulated depreciation	6,242,527	5,095,959
Other assets	141,749	2,631
	<u> </u>	<u> </u>
Total assets	<u>\$ 16,556,915</u>	<u>\$ 11,479,621</u>
 Summary of Liabilities:		
Short-term liabilities	\$ 1,068,195	\$ 518,126
Long-term liabilities	7,648,000	3,230,735
	<u> </u>	<u> </u>
Total liabilities	<u>\$ 8,716,195</u>	<u>\$ 3,748,861</u>
 Summary of Net Assets:		
Invested in capital assets, net of related debt	\$ (1,405,473)	\$ 1,865,224
Restricted for debt service	(22,312)	135,833
Restricted for capital outlay	3,618,819	783,000
Unrestricted	5,649,686	4,946,703
	<u> </u>	<u> </u>
Total net assets	<u>\$ 7,840,720</u>	<u>\$ 7,730,760</u>

A large portion of the City's net assets 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 \$1,619,638, of which the majority was for machinery, equipment and infrastructure. The City recorded \$507,739 in depreciation on its capital assets during FY 2009.

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 2009 and 2008, respectively, the City collected \$6,410,700 and \$6,291,713 in revenues from all sources, while expending \$6,061,814 and \$5,606,543, resulting in a net increase of assets of \$348,886 and \$685,170.

The tables below summarize the years ended September 30, 2009 and 2008 revenues and expenditures for the City.

Program Revenue Summary:	2009	2008
Municipal Court fines and fees	\$ 692,917	\$ 768,744
Planning and zoning fees	192,302	192,921
Operating grants and contributions	109,897	254,133
Total program revenues	\$ 995,116	\$ 1,215,798
 General Revenue Summary:		
Property taxes- general purpose	\$ 2,862,640	\$ 2,728,324
Property taxes- debt service	764,458	687,885
Sales tax	1,155,361	956,884
Franchise tax	387,160	390,110
Interest income	93,846	149,887
Miscellaneous income	152,119	162,825
Total general revenue	\$ 5,415,584	\$ 5,075,915
 Expenditures By Function:		
General government	\$ 1,137,789	\$ 1,253,036
Public works	1,469,610	1,561,072
Municipal Court	430,817	314,264
Public Safety	1,643,439	1,604,789
Planning and zoning	419,941	257,571
Public Health	435,029	334,280
Special Projects	93,015	5,354
Rio Vista Community Center	74,791	79,376
Human Resources	54,228	10,209
Interest on long-term debt	303,155	186,592
Total expenditures	\$ 6,061,814	\$ 5,606,543

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 2009 the City's increase in fund balance was \$430,690 versus a budgeted increase of \$0 in the General Fund. This variance, while high, is reflective of several unforeseeable issues developing during FY 2009, including receiving approximately \$134,315 more in property tax revenue and approximately \$198,477 more in sales tax revenue compared to 2008.

SUMMARY

The City's financial health remains good with sufficient resources to continue current level of service delivery and approximately \$3,619,000 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, 2009

ASSETS:

Cash and cash equivalents	\$ 4,435,172
Restricted cash	4,821,641
Accounts receivable - grantors	1,500
Accounts receivable - taxes	914,326
Capital assets, net of accumulated depreciation	6,242,527
Other assets	<u>141,749</u>
Total assets	<u>\$ 16,556,915</u>

LIABILITIES:

Accounts payable	\$ 502,722
Accrued interest payable	57,941
Accrued expenses	444,517
Accrued compensated absences	63,015
Long-term liabilities:	
Due within one year	365,439
Due in more than one year	<u>7,282,561</u>
Total liabilities	<u>\$ 8,716,195</u>

NET ASSETS:

Invested in capital assets, net of related debt	\$ (1,405,473)
Restricted for debt service	(22,312)
Restricted for capital outlay	3,618,819
Unrestricted	<u>5,649,686</u>
Total net assets	<u>\$ 7,840,720</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs:	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services Fees and Fines	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,137,789	\$ -	\$ -	\$ -	\$ (1,137,789)
Public works	1,469,610	-	-	-	(1,469,610)
Municipal court	430,817	692,917	-	-	262,100
Public safety	1,643,439	-	-	-	(1,643,439)
Planning/zoning	419,941	192,302	-	-	(227,639)
Public health	435,029	-	-	-	(435,029)
Special projects	93,015	-	109,897	-	16,882
Rio Vista Community Center	74,791	-	-	-	(74,791)
Human resources	54,228	-	-	-	(54,228)
Interest on long-term debt	303,155	-	-	-	(303,155)
	<u>\$ 6,061,814</u>	<u>\$ 885,219</u>	<u>\$ 109,897</u>	<u>\$ -</u>	<u>(5,066,698)</u>

General revenues:

Taxes:

Property taxes, levied for general purpose	2,862,640
Property taxes, levied for debt service	764,458
Sales taxes	1,155,361
Franchise taxes	387,160
Interest income	93,846
Miscellaneous	152,119
Total general revenues	<u>5,415,584</u>
Change in net assets	<u>348,886</u>
Net assets - beginning of year, as previously reported	7,730,760
Restatements	(238,926)
Net assets - beginning of year, as restated	<u>7,491,834</u>
Net assets, end of year	<u>\$ 7,840,720</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 4,435,172	\$ -	\$ -	\$ -	\$ 4,435,172
Restricted cash	-	16,169	583,875	4,221,597	4,821,641
Accounts receivable - Grantors	-	-	1,500	-	1,500
Accounts receivable - Taxes	722,698	191,628	-	-	914,326
Due from other funds	4,442,319	608,112	2,180,354	6,051,118	13,281,903
Other assets	2,631	-	-	-	2,631
Total assets	\$ 9,602,820	\$ 815,909	\$ 2,765,729	\$ 10,272,715	\$ 23,457,173
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 149,070	\$ -	\$ 4,982	\$ 348,670	\$ 502,722
Accrued expenses	443,790	-	727	-	444,517
Due to other funds	3,716,362	657,994	2,602,321	6,305,226	13,281,903
Deferred revenues	679,697	180,227	1,500	-	861,424
Total liabilities	4,988,919	838,221	2,609,530	6,653,896	15,090,566
FUND BALANCES:					
Reserved for:					
Principal and interest payments	-	(22,312)	-	-	(22,312)
Capital outlays	-	-	-	3,618,819	3,618,819
Unreserved	4,613,901	-	156,199	-	4,770,100
Total fund balances	4,613,901	(22,312)	156,199	3,618,819	8,366,607
Total liabilities and fund balances	\$ 9,602,820	\$ 815,909	\$ 2,765,729	\$ 10,272,715	\$ 23,457,173

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, 2009

Total fund balances	\$ 8,366,607
Amounts reported in the statement of net assets are different because:	
Capital assets of \$14,037,430 accumulated depreciation of \$(7,794,903), are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail.	6,242,527
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(57,941)
Deferred revenues are not available to pay current-period expenditures and, therefore, are deferred in the funds. These are the deferred property taxes of \$859,924 and deferred grant revenue of \$1,500.	861,424
Long-term liabilities of \$(7,648,000) 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 unamortized bond discount of \$139,118 and compensated absences payable of \$(63,015).	<u>(7,571,897)</u>
Net assets of governmental activities	<u>\$ 7,840,720</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, 2009

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:					
Property taxes	\$ 2,841,681	\$ 745,168	\$ -	\$ -	\$ 3,586,849
Sales taxes	1,155,361	-	-	-	1,155,361
Franchise taxes	387,160	-	-	-	387,160
Planning and zoning fees	192,302	-	-	-	192,302
Fines	692,917	-	-	-	692,917
Interest income	46,912	-	36	46,898	93,846
Grants	-	-	206,909	-	206,909
Other income	134,553	-	35,878	-	170,431
Total revenues	5,450,886	745,168	242,823	46,898	6,485,775
EXPENDITURES:					
General government	1,083,133	2,104	22,969	146,319	1,254,525
Public works	947,066	-	20,201	1,759,361	2,726,628
Municipal court	409,230	-	20,799	-	430,029
Public safety	1,560,599	-	10,193	-	1,570,792
Planning/zoning	406,530	-	-	-	406,530
Public health	434,877	-	-	-	434,877
Special projects	59,140	-	34,026	-	93,166
Rio Vista Community Center	65,393	-	-	-	65,393
Human resources	54,228	-	-	-	54,228
Principal payments	-	582,734	-	-	582,734
Interest payments	-	318,475	-	-	318,475
Total expenditures	5,020,196	903,313	108,188	1,905,680	7,937,377
Excess (deficiency) of revenues over (under) expenditures	430,690	(158,145)	134,635	(1,858,782)	(1,451,602)
OTHER FINANCING SOURCES:					
Bonds proceeds	-	-	-	5,000,000	5,000,000
Net change in fund balances	430,690	(158,145)	134,635	3,141,218	3,548,398
Fund balances - beginning of year, as previously reported	4,373,236	135,833	20,383	527,683	5,057,135
Fund balances - restatement	(190,025)	-	1,181	(50,082)	(238,926)
Fund balances - beginning of year, restated	4,183,211	135,833	21,564	477,601	4,818,209
Fund balances, end of year	\$ 4,613,901	\$ (22,312)	\$ 156,199	\$ 3,618,819	\$ 8,366,607

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, 2009

Net change in fund balances	\$ 3,548,398
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 \$1,654,307 exceeded depreciation of \$(507,739) in the current period.	1,146,568
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 \$40,249 and deferred grant revenue of \$(115,324).	(75,075)
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.	(8,179)
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.	15,320
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt 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 debt proceeds of \$(5,000,000) minus discount of \$38,448, net of amortization of \$(1,922), less issuance costs of \$107,994, net of amortization of \$(5,400), exceeded principal payments of \$582,734.	<u>(4,278,146)</u>
Change in net assets of governmental activities	<u>\$ 348,886</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2009

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, 2009.

New Government Accounting Standards—In February 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions which is effective for financial statements for periods beginning after June 15, 2010, with earlier application encouraged. The Statement establishes the fund balance classifications for governmental funds. The City is analyzing the effect that this statement will have on its financial statements, and currently believes it will have no significant effect on the financial statements for the upcoming year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is effective upon its issuance. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The City incorporated this statement for the current fiscal year, and believes it had no significant effect on the financial statements for the year.

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards, which is effective upon its issuance. This Statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The City incorporated this statement for the current fiscal year, and believes it had no significant effect on the financial statements for the year.

2. DEPOSITS AND INVESTMENTS

Cash and deposits—Cash and deposits consist of the items reported below at September 30, 2009:

Bank deposits:	
General Fund	\$ 4,348,044
Debt Service Fund	16,169
Special Revenue Fund	583,875
Capital Projects Fund	<u>4,221,597</u>
Total Cash and Deposits	<u>\$ 9,169,685</u>

	Market Value
Total cash and deposits	\$ 9,169,685
Total cash equivalents	<u>87,128</u>
Total deposits and cash equivalents	<u>\$ 9,256,813</u>

As of September 30, 2009, the City had the following cash equivalents:

Investment	Weighted Average Maturity	Fair Value
LOGIC	56 days	\$ <u>87,128</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, 2009, the carrying amount of the City's deposits was \$9,169,685 and bank balances equaled \$937,308. Bank balances of \$250,000 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 \$8,486,007 as of September 30, 2009.

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>1,500</u>	\$ <u>-</u>	\$ <u>1,500</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 \$717,836,106 for the year ended September 30, 2009. 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 2008-2009 tax rates were \$.497757, per \$100 of assessed valuation. The City incurred expenditures of \$54,259 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2009.

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, 2009 is \$859,924 of deferred property tax revenue.

4. CAPITAL ASSETS

Changes in Capital Assets—Capital assets activity for the year ended September 30, 2009, was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	\$ 667,685	\$ 34,669	\$ -	\$ 702,354
Capital assets being depreciated:				
Buildings and improvements	758,150	55,636	(66,484)	747,302
Machinery and equipment	725,004	490,649	-	1,215,653
Vehicles	1,137,883	-	-	1,137,883
Office furniture and equipment	153,907	-	-	153,907
Software	49,203	6,175	-	55,378
Infrastructure	8,683,974	1,067,178	66,484	9,817,636
Leasehold improvements	207,317	-	-	207,317
Total capital assets being depreciated at historical cost	11,715,438	1,619,638	-	13,335,076
Less accumulated depreciation for:				
Buildings and improvements	(282,200)	(29,478)	-	(311,678)
Machinery and equipment	(487,460)	(136,540)	-	(624,000)
Vehicles	(834,013)	(85,324)	-	(919,337)
Office furniture and equipment	(127,001)	(11,613)	-	(138,614)
Software	(37,031)	(8,837)	-	(45,868)
Infrastructure	(5,477,198)	(228,134)	-	(5,705,332)
Leasehold improvements	(42,261)	(7,813)	-	(50,074)
Total accumulated depreciation	(7,287,164)	(507,739)	-	(7,794,903)
Other capital assets, net	4,428,274	1,111,899	-	5,540,173
Governmental Activities Capital Assets, Net	\$ 5,095,959	\$ 1,146,568	\$ -	\$ 6,242,527

Depreciation Expense—Depreciation expense was charged to functions of the government as follows, for the year ended September 30, 2009:

General government	\$ 20,886
Public works	389,348
Municipal court	6,480
Public safety	69,237
Planning/zoning	12,613
Rio Vista Community Center	9,175
	<u> </u>
	<u>\$ 507,739</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, 2009, employees had approximately 5,186 hours of accumulated vacation leave, totaling \$63,015.

6. LONG-TERM LIABILITIES

Notes Payable—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. The debt service for notes payable is as follows:

Year Ending September 30:	Notes Payable	
	Principal	Interest
2010	\$ 59,039	\$ 12,103
2011	61,283	9,860
2012	63,611	7,531
2013	66,029	5,114
2014	68,538	2,604
	<u> </u>	<u> </u>
Totals	<u>\$ 318,500</u>	<u>\$ 37,212</u>

Operating Leases—The City has entered into an operating lease for land for \$6,000 per year through 2012. The City has also entered into an operating lease for a copier for \$228 per month. During the year ended September 30, 2009, rental payments under such leases totaled \$6,228.

The following is a schedule of future minimum lease payments as of September 30, 2009:

Year Ending September 30:	Operating Leases
2010	\$ 6,684
2011	6,684
2012	6,000
	<u> </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.

In 2008, the City issued Combination Tax and Revenue Bonds, Series 2008. The original date of issue was October, 2008. Interest on the bonds ranges from 3% to 4.625% and is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2009.

The annual debt service requirements to maturity for bonded debt as of September 30, 2009, are as follows:

Year Ending September 30,	Principal	Interest
2010	\$ 306,400	\$ 310,169
2011	316,600	297,540
2012	264,100	283,846
2013	401,700	268,956
2014	164,400	252,239
2015-2019	1,689,300	1,136,909
2020-2024	2,602,000	650,859
2025-2028	1,585,000	149,937
Totals	<u>\$ 7,329,500</u>	<u>\$ 3,350,455</u>

Changes in Long-term Debt—The following is a summary of changes in long-term debt for the year ended September 30, 2009:

	Balance October 1, 2008	Additions	Payments	Balance September 30, 2009	Due Within One Year
Notes payable	\$ 318,500	\$ -	\$ -	\$ 318,500	\$ 59,039
Capital leases	195,535	-	(195,535)	-	-
Certificates of obligation	2,716,700	5,000,000	(387,200)	7,329,500	306,400
Compensated absences	54,836	85,638	(77,459)	63,015	63,015
Total	<u>\$ 3,285,571</u>	<u>\$ 5,085,638</u>	<u>\$ (660,194)</u>	<u>\$ 7,711,015</u>	<u>\$ 428,454</u>

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, 2009, reported on the governmental fund balance sheet:

	Due To	Due From
General Fund:		
Special Revenue Fund	\$ 2,251,416	\$ 3,086,077
Capital Projects Fund	(6,103,451)	1,885,956
Debt Service Fund	<u>135,673</u>	<u>(529,714)</u>
Total General Fund	<u>\$ (3,906,280)</u>	<u>\$ 4,442,319</u>
Special Revenue Fund:		
General Fund	\$ (3,086,077)	\$ (2,251,417)
Capital Projects Fund	3,168	4,431,771
Debt Service Fund	<u>480,588</u>	<u>-</u>
Total Special Revenue Fund	<u>\$ (2,602,321)</u>	<u>\$ 2,180,354</u>
Debt Service Fund:		
General Fund	\$ (135,673)	\$ 529,713
Special Revenue Fund	(480,588)	-
Capital Projects Fund	<u>(41,733)</u>	<u>78,399</u>
Total Debt Service Fund	<u>\$ (657,994)</u>	<u>\$ 608,112</u>
Capital Projects Fund:		
General Fund	\$ (1,885,955)	\$ 6,132,684
Special Revenue Fund	(4,431,771)	(3,168)
Debt Service Fund	<u>12,500</u>	<u>(78,398)</u>
Total Capital Projects Fund	<u>\$ (6,305,226)</u>	<u>\$ 6,051,118</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, 2009 totaled \$945 and the employees contributed \$18,530.

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, 2009.

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, 2009.

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, 2008 through August 31, 2009, 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 period September 1, 2009 through August 31, 2010.

14. FUND BALANCE AND NET ASSETS RESTATEMENT

During the year ended September 30, 2009, the City's net assets and fund balance were adjusted due to a correction of an error for unrecorded state criminal costs and fees for 2007 and 2008, and due to unrecorded invoices for 2008. The result of the restatement on net assets was as follows:

	Fund Balance	Net Assets
Understatement of accounts payable	(49,008)	(49,008)
Understatement of expenses	<u>(189,918)</u>	<u>(189,918)</u>
	<u>(238,926)</u>	<u>(238,926)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2009

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Property taxes	\$ 3,058,402	\$ 3,058,402	\$ 2,862,640	\$ (195,762)
Sales taxes	957,715	957,715	1,155,361	197,646
Franchise taxes	435,000	435,000	387,160	(47,840)
Planning and zoning fees	223,990	223,990	192,302	(31,688)
Fines	736,955	736,955	692,917	(44,038)
Interest income	128,000	128,000	46,912	(81,088)
Other income	-	-	134,553	134,553
Total revenues	5,540,062	5,540,062	5,471,845	(68,217)
Expenditures/outflows:				
General government	1,360,155	1,360,155	1,083,133	277,022
Public works	988,936	988,936	947,066	41,870
Municipal court	215,959	215,959	409,230	(193,271)
Public safety	1,840,040	1,840,040	1,560,599	279,441
Planning/zoning	451,738	451,738	406,530	45,208
Public health	403,239	403,239	434,877	(31,638)
Special projects	118,684	118,684	59,140	59,544
Rio Vista Community Center	71,844	71,844	65,393	6,451
Human resources	89,467	89,467	54,228	35,239
Total expenditures	5,540,062	5,540,062	5,020,196	519,866
Excess of revenues over expenditures	-	-	451,649	451,649
Fund balance, beginning of year as restated	4,183,211	4,183,211	4,183,211	-
Fund balance, end of year	\$ 4,183,211	\$ 4,183,211	\$ 4,634,860	\$ 451,649
	Budget basis		\$ 4,634,860	
	Revenue accruals		(20,959)	
	Expenditure accruals		-	
	GAAP basis		\$ 4,613,901	

See accompanying notes to required supplementary information.

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND YEAR ENDED SEPTEMBER 30, 2009

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Interest income	\$ -	\$ -	\$ 36	\$ 36
Grants	571,000	571,000	91,585	(479,415)
Other income	93,700	93,700	35,878	(57,822)
Total revenues	664,700	664,700	127,499	(537,201)
Expenditures/outflows:				
General government	-	-	22,969	(22,969)
Municipal court	-	-	20,799	(20,799)
Public safety	-	-	10,193	(10,193)
Special projects	664,700	664,700	34,026	630,674
Public works	-	-	20,201	(20,201)
Total expenditures	664,700	664,700	108,188	556,512
Excess of revenues (expenditures) over expenditures (revenues)	-	-	19,311	19,311
Fund balance, beginning of year as restated	21,564	21,564	21,564	-
Fund balance, end of year	\$ -	\$ 21,564	\$ 40,875	\$ 19,311
	Budget basis		\$ 40,875	
	Revenue accruals		115,324	
	GAAP basis		\$ 156,199	

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, 2009

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 2009.

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 Guillermo Gandara Sr.
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, 2009, which collectively comprise the City of Socorro, Texas' basic financial statements and have issued our report thereon dated June 28, 2010. 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 2009-01, 2009-02, 2009-03 and 2009-04, 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 2009-01, 2009-02, 2009-03 and 2009-04 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 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 responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's responses and, accordingly, we express no opinion on them.

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.

Handwritten signature in blue ink that reads "Jack & Trista, LLP".

June 28, 2010

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED SEPTEMBER 30, 2009

2009-01: Material Weakness Relating to Controls over Financial Reporting

Condition

Following the commencement of audit fieldwork, a significant number of adjusting entries were identified that had a material effect on the revenues and expenditures of the City. Financial statement areas that required adjustment included but were not limited to the following:

Due from other funds were decreased approximately \$210,000 primarily due to unrecorded transactions.

Capital assets were increased approximately \$1,600,000 due to the general ledger not being adjusted to the detail.

Accounts payable were increased approximately \$72,000 primarily due to unrecorded transactions.

Accruals were increased approximately \$308,000 primarily due to the general ledger not being adjusted to the detail.

Expenses were increased approximately \$435,000 primarily due to unrecorded transactions.

Income was increased \$5,000,000 due to incorrect posting of bond proceeds.

Criteria

Statement on Auditing Standards ("SAS") Number 112 became effective for audits of financial statements for periods ending on or after December 15, 2006. Accordingly, this standard became effective for the City's audit year ending September 30, 2007. This standard defines a material weakness in financial reporting internal controls as a significant deficiency in internal controls that results in more than a remote likelihood that a material misstatement of the City's financial statements would not be prevented or detected by the City's internal financial reporting controls.

Management is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Management of the City is responsible for providing granting agencies with accurate financial reports for monitoring purposes.

Cause

Financial reporting controls are not adequate to assure that accurate financial information is prepared. There was a high level of turnover in the accounting department and the City employees do not work together with the interim city manager to assure that accurate financial information is prepared.

Effect

Internally generated financial information does not provide management with reliable data to make financial decisions or monitor the results of individual programs.

Recommendation

Management should implement financial reporting controls that provided assurance that internally generated financial information is accurate. Areas where financial controls should be strengthened include but are not limited to the following:

Due to / from funds should be reconciled monthly.

Accounts payable balances for all funds and accounts should be reconciled every month.

Capital assets for all funds and accounts should be reconciled every month.

Detailed listing of amounts in other accrued liabilities should be maintained and reconciled on a monthly basis.

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 response and corrective action plan prepared by July 15, 2010.

2009-02: State Fees

Condition

In prior years, there was a difference between what the City reported and paid to the State for criminal costs and fees reported in the State Criminal Costs and Fees City Quarterly Report. In the current year, the City reconciled the difference and has determined that the City under reported and under paid criminal costs and fees to the State in an amount of \$343,565.

Criteria

State criminal costs and fees should be collected and submitted to the State on a timely manner.

Cause

On December 18, 2007 a manual deactivation of the computer fields occurred within the City, presumably by Municipal Court Employees trained and with authorized access to the software.

Effect

The City may be liable for penalties and interest for the amount under paid.

Recommendation

Account balances should be reconciled to subsidiary ledgers and/or supporting schedules and variances identified, investigated and resolved 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 response and corrective action plan prepared by July 15, 2010.

2009-3: Numerical Sequence of Checks Used

Condition

During our audit we noted that checks are not used in numerical sequence and that some checks were missing.

Criteria

Controls should be maintained over used and unused checks to prevent misuse and to make sure that all checks issued are recorded in the appropriate period.

Effect

There is an increased risk of theft.

Cause

The City does not follow controls over check processing to ensure safekeeping of assets. Included in those controls are restrictions in access and tracking of assets.

Recommendation

Tighter controls should be maintained over used and unused checks and all checks should be used in order and accounted for. Management should periodically review the cash disbursement journal to determine that checks are being written in numerical sequence.

Management's 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 response and corrective action plan prepared by July 15, 2010.

2009-4: Prior Period Adjustments

Condition

Certain items resulting in a misstatement of previously reported items were discovered during the year. Accordingly, adjustments were made to correct several balances at the beginning of the year.

Criteria

Financial statements should report accurate and timely financial information.

Effect

The 2008 financial statements were misstated and the 2009 beginning balances are misstated.

Cause

The City did not reconcile its 2008 financial statements to its general ledger and supporting documentation.

Recommendation

The City should review its audited financial statements and reconcile them to the general ledger and supporting documentation.

Management's 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 response and corrective action plan prepared by July 15, 2010.

2008 3: Public Funds Investment Act Compliance

Condition

At September 30, 2009, the City's deposits with Wells Fargo Stagecoach Sweep accounts were under collateralized. The M&O account had a balance of \$4,113,557 and was collateralized by \$4,094,246 of securities and the Capital Projects Fund account had a balance of \$4,330,838 and was collateralized by \$4,311,282 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 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 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, 2009

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Property taxes	\$ 789,758	\$ 789,758	\$ 764,458	\$ (25,300)
Interest income	15,112	15,112	-	(15,112)
Total revenues	<u>804,870</u>	<u>804,870</u>	<u>764,458</u>	<u>(40,412)</u>
Expenditures/outflows:				
General government	982	982	2,104	(1,122)
Principal payments	414,411	414,411	582,734	(168,323)
Interest payments	389,477	389,477	318,475	71,002
Total expenditures	<u>804,870</u>	<u>804,870</u>	<u>903,313</u>	<u>(98,443)</u>
Net change in fund balance	-	-	(138,855)	(138,855)
Fund balance, beginning of year	<u>135,833</u>	<u>135,833</u>	<u>135,833</u>	<u>-</u>
Fund balance, end of year	<u>\$ 135,833</u>	<u>\$ 135,833</u>	<u>\$ (3,022)</u>	<u>\$ (138,855)</u>
			Budget basis	\$ (3,022)
			Revenue accruals	<u>(19,290)</u>
			GAAP basis	<u>\$ (22,312)</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND YEAR ENDED SEPTEMBER 30, 2009

	<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Proceeds from bonds	\$ 5,750,000	\$ 5,750,000	\$ 5,000,000	\$ (750,000)
Interest income	60,000	60,000	46,898	(13,102)
Other income	-	-	-	-
	<u>5,810,000</u>	<u>5,810,000</u>	<u>5,046,898</u>	<u>(763,102)</u>
Expenditures/outflows:				
General government	-	-	146,319	(146,319)
Public works	5,810,000	5,810,000	1,759,361	4,050,639
Planning/zoning	-	-	-	-
Rio Vista Community Center	-	-	-	-
	<u>5,810,000</u>	<u>5,810,000</u>	<u>1,905,680</u>	<u>3,904,320</u>
Net change in fund balance	-	-	3,141,218	3,141,218
Fund balance, beginning of year, as restated	<u>477,601</u>	<u>477,601</u>	<u>477,601</u>	<u>-</u>
Fund balance, end of year	<u>\$ 477,601</u>	<u>\$ 477,601</u>	<u>\$ 3,618,819</u>	<u>\$ 3,141,218</u>

See accompanying notes to financial statements.