

City of Socorro, Texas

Basic Financial Statements,
Required Supplementary Information
and Supplementary Information
For the Year Ended September 30, 2012
and Independent Auditors' Report

CITY OF SOCORRO, TEXAS

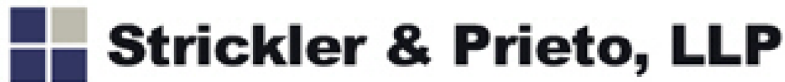
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CITY OF SOCORRO, TEXAS

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INDEPENDENT AUDITORS' REPORT

To Honorable Mayor 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 (the "City"), as of and for the year ended September 30, 2012, 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 the 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, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 26 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Socorro, Texas' financial statements as a whole. 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Budgetary Comparison Schedule - Debt Service Fund, Budgetary Comparison Schedule - Capital Projects Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

STRICKLER & PRICHO, LLP

El Paso, TX
August 20, 2013

**CITY OF SOCORRO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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, 2012. Please read it in conjunction with the City's financial statements and accompanying footnotes, which follow this section.

FINANCIAL HIGHLIGHTS FISCAL YEAR 2012

- General Fund expenditures were approximately 6.28% less than projected.
- General fund revenues were 97% of the final budget.
- Net assets were reported at \$10,830,111 at September 30, 2012.

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. The City issued new debt toward the end of the fiscal year 2012 in the amount of \$4,895,000. The debt was issued to fund street improvements, park improvements and additions, building renovations, driveways, and land acquisitions.

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) are \$10,830,111 and \$11,684,378 at September 30, 2012 and 2011, respectively. The decrease in net assets is primarily the result of decrease in municipal court receivables due to a write off at year end. The tables below summarize the City's total assets, liabilities and net assets at September 30, 2012 and 2011.

Summary of Total Assets:	2012	2011
Cash and cash equivalents	\$ 4,591,789	\$ 5,207,537
Restricted cash	6,515,752	6,023,861
Receivables (taxes, grants, other miscellaneous)	3,744,217	4,038,407
Capital assets, net of accumulated depreciation	14,277,014	9,952,571
Other assets	493,935	382,700
	<u> </u>	<u> </u>
Total assets	<u>\$ 29,622,707</u>	<u>\$ 25,605,076</u>
 Summary of Liabilities:		
Short-term liabilities	\$ 1,525,707	\$ 1,388,495
Long-term liabilities	17,266,889	12,532,203
	<u> </u>	<u> </u>
Total liabilities	<u>\$ 18,792,596</u>	<u>\$ 13,920,698</u>
 Summary of Net Assets:		
Invested in capital assets, net of related debt	\$ 3,813,281	\$ (2,327,429)
Restricted for debt service	(219,506)	(247,453)
Restricted for capital outlay	5,689,464	5,069,214
Unrestricted	1,546,872	9,190,046
	<u> </u>	<u> </u>
Total net assets	<u>\$ 10,830,111</u>	<u>\$ 11,684,378</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 \$4,982,807 of which the majority was for machinery, equipment and infrastructure.

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.

At year end, the City reported revenue from all sources of \$7,420,110 and \$7,730,420 for 2012 and 2011, respectively, while expending \$8,274,377 and \$6,706,995. This resulting in a net decrease of assets in 2012 of \$854,267 and increase in net assets of \$1,023,425 in FY 2011.

The tables below summarize the years ended September 30, 2012 and 2011 revenues and expenditures for the City.

Program Revenue Summary:	2012	2011
Municipal Court fines and fees	\$ (41,137)	\$ 430,972
Planning and zoning fees	276,666	312,092
Operating grants and contributions	<u>1,055,859</u>	<u>453,477</u>
 Total program revenues	 <u>\$ 1,291,388</u>	 <u>\$ 1,196,541</u>
 General Revenue Summary:		
Property taxes- general purpose	\$ 3,311,301	\$ 3,232,479
Property taxes- debt service	837,586	827,214
Sales tax	1,378,725	1,360,495
Franchise tax	428,855	476,400
Interest income	1,979	9,374
Miscellaneous income	<u>170,276</u>	<u>627,917</u>
 Total general revenue	 <u>\$ 6,128,722</u>	 <u>\$ 6,533,879</u>
 Expenditures By Function:		
General government	\$ 1,883,687	\$ 1,598,716
Public works	989,968	1,526,866
Municipal Court	293,504	380,094
Public Safety	2,723,067	1,869,877
Planning and zoning	274,453	33,373
Public Health	391,225	401,470
Special Projects	937,287	336,739
Rio Vista Community Center	222,221	108,641
Human Resources	99,822	82,119
Interest on long-term debt	<u>459,143</u>	<u>369,100</u>
 Total expenditures	 <u>8,274,377</u>	 <u>6,706,995</u>
 Change in net assets	 <u>\$ (854,267)</u>	 <u>\$ 1,025,425</u>

The City's annual budget reflects the financial commitment to services and improvements by the governing body. As such, budget performance at the end of the fiscal year may be used as an indicator of the City's progress towards stated goals and objectives. During FY 2012 the City's General Fund Balance decreased \$728,293 as a result of the net difference between expenditures of \$6,634,686 and revenues of \$5,906,393. Projected revenues were slightly less than anticipated primarily due to sales taxes revenues coming in at \$268,893 less than anticipated. Actual expenditures were 6% less than budgeted.

SUMMARY

The City's financial health remains good with sufficient resources to continue current level of service delivery and approximately \$5,689,464 in capital 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. Willie Norfleet Jr., 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, 2012

ASSETS:

Cash and cash equivalents	\$ 4,591,789
Restricted cash	6,515,752
Accounts receivable - grantors	582,205
Other receivables, net	1,692,786
Accounts receivable - taxes	1,469,226
Capital assets, net of accumulated depreciation	14,277,014
Other assets	<u>493,935</u>
Total assets	<u>\$ 29,622,707</u>

LIABILITIES:

Accounts payable	\$ 793,909
Accrued interest payable	46,044
Accrued expenses	685,754
Long-term liabilities:	
Bonds payable, current	600,000
Bonds payable, non-current	16,195,000
Unamortized bond premium	<u>471,889</u>
Total liabilities	<u>\$ 18,792,596</u>

NET ASSETS:

Invested in capital assets, net of related debt	\$ 3,813,281
Restricted for debt service	(219,506)
Restricted for capital outlay	5,689,464
Unrestricted	<u>1,546,872</u>
Total net assets	<u>\$ 10,830,111</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs:	Expenses	Program Revenues			Net Revenue (Expense)
		Charges for Services Fees and Fines	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 1,883,687	\$ -	\$ -	\$ -	\$ (1,883,687)
Public works	989,968	-	-	-	(989,968)
Municipal court	293,504	(41,137)	-	-	(334,641)
Public safety	2,723,067	-	-	-	(2,723,067)
Planning/zoning	274,453	276,666	-	-	2,213
Public health	391,225	-	-	-	(391,225)
Special projects	937,287	-	1,055,859	-	118,572
Rio Vista Community Center	222,221	-	-	-	(222,221)
Human resources	99,822	-	-	-	(99,822)
Interest on long-term debt	459,143	-	-	-	(459,143)
	<u>\$ 8,274,377</u>	<u>\$ 235,529</u>	<u>\$ 1,055,859</u>	<u>\$ -</u>	<u>(6,982,989)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purpose					3,311,301
Property taxes, levied for debt service					837,586
Sales taxes					1,378,725
Franchise taxes, for general purpose					411,621
Franchise taxes, for public, educational and government purpose					17,234
Interest income					1,979
Miscellaneous					<u>170,276</u>
Total general revenues					<u>6,128,722</u>
Change in net assets					<u>(854,267)</u>
Net assets - beginning of year					<u>11,684,378</u>
Net assets, end of year					<u>\$ 10,830,111</u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2012

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 4,591,789	\$ -	\$ -	\$ -	\$ 4,591,789
Restricted cash	-	80,040	104,445	6,331,267	6,515,752
Accounts receivable - Grantors	-	-	582,205	-	582,205
Other receivables, net	1,121,838	-	570,948	-	1,692,786
Accounts receivable - Taxes	1,260,471	208,755	-	-	1,469,226
Due from other funds	8,691,394	593,811	5,722,667	6,347,591	21,355,463
Other assets	5,819	-	-	-	5,819
Total assets	\$ 15,671,311	\$ 882,606	\$ 6,980,265	\$ 12,678,858	\$ 36,213,040
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 182,173	\$ -	\$ 251,777	\$ 359,959	\$ 793,909
Accrued expenses	181,939	-	503,815	-	685,754
Due to other funds	8,222,150	903,758	5,600,120	6,629,435	21,355,463
Deferred revenues	1,499,874	198,354	373,448	-	2,071,676
Total liabilities	10,086,136	1,102,112	6,729,160	6,989,394	24,906,802
FUND BALANCES:					
Nonspendable	-	(219,506)	-	-	(219,506)
Restricted for:					
PEG fee	-	-	27,262	-	27,262
State fees	-	-	53,561	-	53,561
Court building	-	-	7,966	-	7,966
Court tech fund	-	-	28,218	-	28,218
Teen court county	-	-	490	-	490
Baseball Tomorrow Fund	-	-	3,804	-	3,804
SPD- law enforcement	-	-	40,206	-	40,206
JAG grant	-	-	8,896	-	8,896
TDHCA	-	-	29,038	-	29,038
SRTS	-	-	51,587	-	51,587
Committed for:					
2001 CO	-	-	-	95,682	95,682
2008 CO	-	-	-	773,306	773,306
2011 CO	-	-	-	62,639	62,639
2012 CO	-	-	-	4,758,182	4,758,182
Assigned	-	-	77	-	77
Unassigned	5,585,175	-	-	(345)	5,584,830
Total fund balances	5,585,175	(219,506)	251,105	5,689,464	11,306,238
Total liabilities and fund balances	\$ 15,671,311	\$ 882,606	\$ 6,980,265	\$ 12,678,858	\$ 36,213,040

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, 2012

Total fund balances	\$ 11,306,238
Amounts reported in the statement of net assets are different because:	
Capital assets of \$23,774,219 net of accumulated depreciation of \$(9,497,205), are not financial resources and, therefore, are not reported in the funds. See Note 4 for additional detail.	14,277,014
Deposit on land purchase	5,000
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(46,044)
Deferred revenues are not available to pay current-period expenditures and, therefore, are deferred in the funds. These are the deferred property taxes of \$964,414 and deferred municipal court warrants of \$1,107,262.	2,071,676
Long-term liabilities of \$(16,795,000) are not due and payable in the current period and are not reported in the funds. See Note 6 for detail. In addition, unamortized bond discount of \$483,116 and bond premium of \$(471,889).	<u>(16,783,773)</u>
Net assets of governmental activities	<u>\$ 10,830,111</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, 2012

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:					
Property taxes	\$ 3,259,249	\$ 837,584	\$ -	\$ -	\$ 4,096,833
Sales taxes	1,378,725	-	-	-	1,378,725
Franchise taxes	411,621	-	17,234	-	428,855
Planning and zoning fees	276,666	-	-	-	276,666
Municipal court	501,577	-	50,021	-	551,598
Interest income	724	-	100	1,155	1,979
Grants	-	-	1,060,860	-	1,060,860
Other income	139,411	-	30,293	572	170,276
Total revenues	<u>5,967,973</u>	<u>837,584</u>	<u>1,158,508</u>	<u>1,727</u>	<u>7,965,792</u>
EXPENDITURES:					
General government	1,666,993	-	8,105	189,989	1,865,087
Public works	1,193,582	-	-	4,086,489	5,280,071
Municipal court	294,629	-	4,211	-	298,840
Public safety	2,550,530	-	137,991	-	2,688,521
Planning/zoning	290,936	-	-	-	290,936
Public health	391,225	-	-	-	391,225
Special projects	7,764	-	929,525	-	937,289
Rio Vista Community Center	177,586	-	-	-	177,586
Human resources	99,822	-	-	-	99,822
Principal payments	-	380,000	-	-	380,000
Interest payments	-	450,685	-	-	450,685
Total expenditures	<u>6,673,067</u>	<u>830,685</u>	<u>1,079,832</u>	<u>4,276,478</u>	<u>12,860,062</u>
Excess (deficiency) of revenues over (under) expenditures	(705,094)	6,899	78,676	(4,274,751)	(4,894,270)
OTHER FINANCING SOURCES:					
Bonds proceeds	-	-	-	4,895,000	4,895,000
Net change in fund balances	(705,094)	6,899	78,676	620,249	730
Fund balances, beginning of year	<u>6,290,269</u>	<u>(226,405)</u>	<u>172,429</u>	<u>5,069,215</u>	<u>11,305,508</u>
Fund balances, end of year	<u>\$ 5,585,175</u>	<u>\$ (219,506)</u>	<u>\$ 251,105</u>	<u>\$ 5,689,464</u>	<u>\$ 11,306,238</u>

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, 2012

Net change in fund balances \$ 730

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 \$4,982,807 exceeded depreciation of \$(658,364) in the current period. 4,324,443

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 \$52,053, deferred grant revenue of \$(5,000) and deferred municipal court revenue of \$(592,736). (545,683)

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. This is the current year change in accrued interest. (8,458)

The proceeds of debt issuances provide current financial resources to governmental funds, however 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. Also, governmental funds report the effect of premium and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net amount of bond proceeds in the amount of \$(4,895,000) plus the amount of principal payments of \$380,000 less bond premium net of amortization of \$(219,685) and bond issuance cost net of amortization of \$109,386. (4,625,299)

Change in net assets of governmental activities \$ (854,267)

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 they are 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 and report all financial resources not accounted for and reported in another fund.

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

Special Revenue Fund—The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Contract revenue is recognized when compliance with the various contract requirements is achieved. Usually this occurs at the time expenditures are made and the contract matching requirements are met. Contract revenues received before the revenue recognition has been met are reported as 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 and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

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.

Fund Balances-Government Funds—The City reports the governmental fund balances in five categories, which include:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the City of Socorro Council. The City of Socorro Council is the highest level of decision-making authority for the City of Socorro. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City of Socorro Council.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City of Socorro's adopted policy, only City of Socorro Council and the Socorro City Manager may assign amounts for specific purposes. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned - is the residual classification of the General Fund and includes all amounts not contained in other classifications. Unassigned amounts are available for any purpose. Unassigned fund balance is only reported in the General Fund.

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, 2012.

New Government Accounting Standards—In November 2010, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements which is effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The standard is expected to have no effect on the City in upcoming years.

In November 2010, GASB Statement No. 61, The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34, which is effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the City in upcoming years.

In December 2010, GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The City will implement this standard during fiscal year September 30, 2013.

In June 2011, GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The City will implement this standard during fiscal year September 30, 2013.

In March 2012, Statement No. 65 Items Previously Reported as Assets and Liabilities, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard will be implemented for year ending September 30, 2014.

In March 2012, Statement No. 66 Technical Corrections 2012, an amendment of GASB Statements No. 10 and No. 62, which is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The standard is expected to have no effect on the City in upcoming years.

In June 2012, Statement No. 67 Financial Reporting for Pension Plans, an amendment of GASB Statements No. 25, which is effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. The standard is expected to have no effect on the City in upcoming years.

In June 2012, Statement No. 68 Accounting and Financial Reporting for Pensions, an amendment of GASB Statements No. 27, which is effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The standard is expected to have no effect on the City in upcoming years.

Subsequent Events—Management has evaluated events through August 20, 2013, the date the financial statement were available to be issued.

2. DEPOSITS AND INVESTMENTS

Cash and deposits—Cash and deposits consist of the items reported below at September 30, 2012:

Bank deposits:

General Fund	\$ 4,504,284
Debt Service Fund	80,040
Special Revenue Fund	104,445
Capital Projects Fund	<u>6,331,267</u>
Total cash and deposits	<u>\$ 11,020,036</u>

Type of Security	Market Value
Total cash and deposits	\$ 11,020,036
Total cash equivalents	<u>87,505</u>
Total deposits and cash equivalents	<u>\$ 11,107,541</u>

As of September 30, 2012, the City had the following cash equivalents:

Investment	Weighted Average Maturity	Fair Value
LOGIC	40 days	<u>\$ 87,505</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, 2012, the carrying amount of the City's deposits was \$11,020,036 and bank balances equaled \$2,629,188. 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 \$8,574,123 as of September 30, 2012.

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	\$ 582,205	\$ -	\$ 582,205

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 \$838,669,410 for the year ended September 30, 2012. 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 2011-2012 tax rates were \$.496757, per \$100 of assessed valuation. The City incurred expenditures of \$53,264 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2012.

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 government wide statement of activities for the year ended September 30, 2012 is \$964,414 of deferred property tax revenue.

4. CAPITAL ASSETS

Changes in Capital Assets—Capital assets activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	\$ 702,354	\$ 809,706	\$ -	\$ 1,512,060
Capital assets being depreciated:				
Buildings and improvements	1,448,038	188,033	-	1,636,071
Machinery and equipment	1,476,763	-	-	1,476,763
Vehicles	1,336,679	82,593	-	1,419,272
Office furniture and equipment	370,520	11,280	-	381,800
Software	55,378	-	-	55,378
Infrastructure	12,280,011	3,285,031	899,193	16,464,235
Leasehold improvements	207,317	-	-	207,317
Construction in progress	914,352	606,164	(899,193)	621,323
Total capital assets being depreciated at historical cost	<u>18,089,058</u>	<u>4,173,101</u>	<u>-</u>	<u>22,262,159</u>
Less accumulated depreciation for:				
Buildings and improvements	(329,358)	(42,254)	-	(371,612)
Machinery and equipment	(951,771)	(159,206)	-	(1,110,977)
Vehicles	(1,043,179)	(99,601)	-	(1,142,780)
Office furniture and equipment	(187,554)	(37,721)	-	(225,275)
Software	(55,034)	(343)	-	(55,377)
Infrastructure	(6,206,245)	(311,425)	-	(6,517,670)
Leasehold improvements	(65,700)	(7,814)	-	(73,514)
Total accumulated depreciation	<u>(8,838,841)</u>	<u>(658,364)</u>	<u>-</u>	<u>(9,497,205)</u>
Other capital assets, net	<u>9,250,217</u>	<u>3,514,737</u>	<u>-</u>	<u>12,764,954</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,952,571</u>	<u>\$ 4,324,443</u>	<u>\$ -</u>	<u>\$ 14,277,014</u>

Depreciation Expense—Depreciation expense was charged to functions of the government as follows, for the year ended September 30, 2012:

General government	\$ 17,901
Public works	465,345
Municipal court	343
Public safety	117,137
Planning/zoning	13,004
Rio Vista Community Center	44,634
	<u>\$ 658,364</u>

5. ACCRUED COMPENSATED ABSENCES

The City's leave policy does not allow employees to accumulate sick leave and vacation leave at the end of each fiscal year. 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, 2012, there was no accumulation of vacation leave, since no vacation accrual can be carried over to the next fiscal year.

6. LONG-TERM LIABILITIES

Operating Leases—The City has an operating lease for a copier for \$228 per month. The operating lease for the copier is beyond the original terms of the lease and is therefore considered to be a month to month lease. During the year ended September 30, 2012, rental payments under such leases totaled \$2,736.

Certificates of Obligations—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.

In 2010, the City issued Combination Tax and Revenue Bonds, Series 2010. The original date of issue was October, 2010. Interest on the bonds ranges from 2.00% to 4.00% and is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2011.

In 2010, the City issued General Obligation Refunding Bonds, Series 2010. The proceeds of the Series 2010 bonds were used to refund a portion of the City's outstanding debt, including all of the maturities of the Series 1999 bonds, Series 2001 bonds, Series 2004 bonds and to pay the costs of issuing the Series 2010 bonds. The purpose of such refunding was to lower overall debt service requirements related to the Refunded Obligations. The Series 2010 bonds are dated October 14, 2010. Interest on the bonds, with a floor of 2.00% and a ceiling of 4.00%, is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2011.

In 2011, the City issued Combination Tax and Revenue Bonds, Series 2011. The original date of issue was September, 2011. Interest on the bonds ranges from 2.00% to 4.25% and is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2012.

In 2012, the City issued Combination Tax and Revenue Bonds, Series 2012. The original date of issue was August, 2012. Interest on the bonds ranges from 2.00% to 3.50% and is payable semi-annually on March 1 and September 1 of each year beginning March 1, 2013.

The annual debt service requirements to maturity for bonded debt as of September 30, 2012, are as follows:

Year Ending September 30,	Principal	Interest
2013	\$ 600,000	\$ 594,921
2014	610,000	583,791
2015	625,000	567,647
2016	645,000	548,954
2017	665,000	529,373
2018-2022	3,690,000	2,285,323
2023-2027	4,495,000	1,477,345
2028-2032	5,465,000	503,836
Totals	<u>\$ 16,795,000</u>	<u>\$ 7,091,190</u>

Changes in Long-term Debt—The following is a summary of changes in long-term debt for the year ended September 30, 2012:

	Balance October 1, 2011	Additions	Payments/ Expired	Balance September 30, 2012	Due Within One Year
Certificates of obligation	\$ 12,280,000	\$ 4,895,000	\$ (380,000)	\$ 16,795,000	\$ 600,000

7. FUND BALANCE

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

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

8. DEFICIT FUND BALANCES

The Debt Service Fund had a deficit fund balance at September 30, 2012 of (\$219,506). This deficit will be financed through future revenue of the fund.

9. DUE FROM/DUE OTHER FUNDS

The following are the due from/due to balances as of September 30, 2012, reported on the governmental fund balance sheet:

	Due To	Due From
General Fund:		
Special Revenue Fund	\$ (2,222,904)	\$ 6,987,549
Capital Projects Fund	(6,134,919)	1,987,795
Debt Service Fund	135,673	(283,950)
	<u>\$ (8,222,150)</u>	<u>\$ 8,691,394</u>
Total General Fund		
Special Revenue Fund:		
General Fund	\$ (5,818,872)	\$ 1,054,226
Capital Projects Fund	(261,836)	4,668,441
Debt Service Fund	480,588	-
	<u>\$ (5,600,120)</u>	<u>\$ 5,722,667</u>
Total Special Revenue Fund		
Debt Service Fund:		
General Fund	\$ (381,437)	\$ 529,713
Special Revenue Fund	(480,588)	-
Capital Projects Fund	(41,733)	64,098
	<u>\$ (903,758)</u>	<u>\$ 593,811</u>
Total Debt Service Fund		

Capital Projects Fund:		
General Fund	\$ (1,987,794)	\$ 6,164,154
Special Revenue Fund	(4,668,441)	261,836
Debt Service Fund	26,800	(78,399)
	<u> </u>	<u> </u>
Total Capital Projects Fund	\$ (6,629,435)	\$ 6,347,591

10. DEFERRED COMPENSATION

All City employees are eligible to participate in the City's Deferred Compensation Plan (the "Plan") adopted under the provisions of Internal 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, 2012 totaled \$2,170 and the employees contributed \$51,611.

11. RISK POOL

The City is a participant in an intergovernmental risk pool for its workers' compensation, liability, and property insurance. Participants in this pool are required to pay "premiums" on the insurance selected. Should a loss occur, the City is liable only for the deductible. The risk pool purchases reinsurance to cover future losses. The City is not liable for the future claims and, therefore, no liability has accrued at September 30, 2012.

12. CONTINGENCIES

The City is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City and, therefore, no liability was accrued at September 30, 2012.

13. FEDERAL AND STATE GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

14. OTHER CONTRACTS AND AGREEMENTS

The City entered into a contract with the City of El Paso 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, 2012 through August 31, 2013, and is in the amount of \$375,784.

The City entered into a contract with the County of El Paso for the purpose of providing certain services relating to the operation of the On-Site Sewage Facility Program to provide the citizens of Socorro adequate public health protection and a minimum of environmental pollution. Under the terms of the contract, the City is required to pay the County a monthly fee, to be determined annually, for the services performed each year during the term of this agreement. For the agreement, the fee payable to the County shall be \$1,000 per month. The agreement is effective on October 1, 2012 and shall terminate on the 30th day of September, 2013.

The City entered into a contract with the County of El Paso on behalf of the El Paso County Rural Transit for the purpose of operating a public rural transit bus system in the City. Under the terms of the contract, the City is required to pay \$5,000 to share in the cost of operation for the period September 1, 2012 through August 15, 2013.

The City entered into a contract with the Texas A&M Transportation Institute for the purpose of conducting an analysis of revenue potential for Transportation Reinvestment Zones within the City of Socorro. The contract is for the period September 15, 2012 through January 30, 2013, and the total amount of this contract shall not exceed \$18,000. The maximum amount payable is contingent upon availability of funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2012

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Property taxes	\$ 3,306,000	\$ 3,306,000	\$ 3,302,162	\$ (3,838)
Sales taxes	1,453,000	1,453,000	1,184,107	(268,893)
Franchise taxes	411,000	471,000	427,480	(43,520)
Planning and zoning fees	257,000	252,000	276,666	24,666
Fines	450,000	550,000	575,843	25,843
Interest income	25,980	980	724	(256)
Other income	44,020	33,720	139,411	105,691
Total revenues	<u>5,947,000</u>	<u>6,066,700</u>	<u>5,906,393</u>	<u>(160,307)</u>
Expenditures/outflows:				
General government	1,227,724	1,857,487	1,657,405	200,082
Public works	1,128,096	1,201,096	1,186,717	14,379
Fire department	-	27,530	-	27,530
Municipal court	283,435	295,085	292,934	2,151
Public safety	2,301,241	2,615,841	2,535,860	79,981
Planning/zoning	329,096	311,326	289,263	22,063
Public health	378,330	393,330	388,975	4,355
Special projects	10,600	10,600	7,719	2,881
Rio Vista Community Center	175,008	173,208	176,565	(3,357)
Human resources	197,917	194,117	99,248	94,869
Total expenditures	<u>6,031,447</u>	<u>7,079,620</u>	<u>6,634,686</u>	<u>444,934</u>
Excess of expenditures over revenues	(84,447)	(1,012,920)	(728,293)	284,627
Fund balance, beginning of year	<u>5,823,288</u>	<u>5,823,288</u>	<u>5,823,288</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,738,841</u>	<u>\$ 4,810,368</u>	<u>\$ 5,094,995</u>	<u>\$ 284,627</u>
			Budget basis	\$ (728,293)
			Revenue accruals	61,582
			Expenditure accruals	<u>(38,383)</u>
			GAAP basis	<u>\$ (705,094)</u>

See accompanying notes to required supplementary information.

CITY OF SOCORRO, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Franchise taxes	\$ -	\$ -	\$ 17,234	\$ 17,234
Fines	16,949	16,949	23,760	6,811
Interest income	-	-	100	100
Hotel tax	15,000	15,000	-	(15,000)
Grants	1,161,117	1,161,117	1,060,860	(100,257)
Other income	40,206	40,206	30,293	(9,913)
	<u>1,233,272</u>	<u>1,233,272</u>	<u>1,132,247</u>	<u>(101,025)</u>
Total revenues				
Expenditures/outflows:				
General government	15,000	15,000	7,668	7,332
Municipal court	16,949	16,949	3,984	12,965
Public safety	54,101	54,101	130,556	(76,455)
Special projects	1,147,222	1,147,222	879,441	267,781
	<u>1,233,272</u>	<u>1,233,272</u>	<u>1,021,649</u>	<u>211,623</u>
Total expenditures				
Excess of revenues over expenditures	-	-	110,598	110,598
Fund balance, beginning of year	<u>(324,544)</u>	<u>(324,544)</u>	<u>(324,544)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (324,544)</u>	<u>\$ (324,544)</u>	<u>\$ (213,946)</u>	<u>\$ 110,598</u>
			Budget basis	\$ 110,598
			Revenue accruals	26,261
			Expenditure accruals	<u>(58,183)</u>
			GAAP basis	<u>\$ 78,676</u>

See accompanying notes to required supplementary information.

CITY OF SOCORRO, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 2012.

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

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

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

SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Proceeds for bonds	\$ -	\$ -	\$ -	\$ -
Property taxes	832,179	832,179	840,114	7,935
Interest income	-	-	-	-
	<u>832,179</u>	<u>832,179</u>	<u>840,114</u>	<u>7,935</u>
Total revenues				
Expenditures/outflows:				
Principal payments	381,494	381,494	380,000	1,494
Interest payments	450,685	450,685	450,685	-
	<u>832,179</u>	<u>832,179</u>	<u>830,685</u>	<u>1,494</u>
Total expenditures				
Excess revenues over expenditures	-	-	9,429	9,429
Fund balance, beginning of year	<u>(224,902)</u>	<u>(224,902)</u>	<u>(224,902)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (224,902)</u>	<u>\$ (224,902)</u>	<u>\$ (215,473)</u>	<u>\$ 9,429</u>
			Budget basis	\$ 9,429
			Revenue accruals	(2,530)
			Expenditure accruals	<u>-</u>
			GAAP basis	<u>\$ 6,899</u>

See accompanying notes to financial statements.

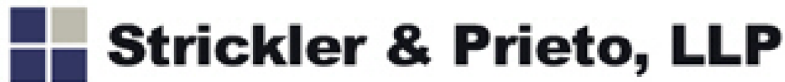
CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budget Amounts</u>		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues/inflows:				
Proceeds from bonds	\$ 5,298,696	\$ 5,298,696	\$ 4,895,000	\$ (403,696)
Interest income	20,000	20,000	1,155	(18,845)
Other income	-	-	572	572
	<u>5,318,696</u>	<u>5,318,696</u>	<u>4,896,727</u>	<u>(421,969)</u>
Total revenues				
Expenditures/outflows:				
General government	-	-	186,148	(186,148)
Public works	5,318,696	5,318,696	4,003,875	1,314,821
	<u>5,318,696</u>	<u>5,318,696</u>	<u>4,190,023</u>	<u>1,128,673</u>
Total expenditures				
Excess of revenues over expenditures	-	-	706,704	706,704
Fund balance, beginning of year	<u>4,912,024</u>	<u>4,912,024</u>	<u>4,912,024</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,912,024</u>	<u>\$ 4,912,024</u>	<u>\$ 5,618,728</u>	<u>\$ 706,704</u>
			Budget basis	\$ 706,704
			Expenditure accruals	<u>(86,455)</u>
			GAAP basis	<u>\$ 620,249</u>

See accompanying notes to financial statements.

COMPLIANCE SECTION



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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 and Members of City Council
City of Socorro, Texas

We have audited the financial statements of the governmental activities and each major fund of City of Socorro, Texas, as of and for the year ended September 30, 2012, which collectively comprise City of Socorro, Texas' basic financial statements and have issued our report thereon dated August 20, 2013. 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

Management of City of Socorro, Texas, is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2012-1, 2011-5 and 2011-2 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2012-2, 2011-3, 2011-4, and 2011-7 to be significant deficiencies.

Compliance and Other Matters

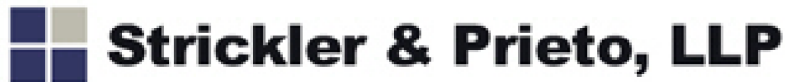
As part of obtaining reasonable assurance about whether City of Socorro, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 questioned costs as items 2012-3, 2012-4 and 2012-5.

City of Socorro, Texas' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Socorro, Texas' responses and, accordingly, we express no opinion on them.

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

Strickler & Prieto, LLP

El Paso, Texas
August 20, 2013



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

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

Compliance

We have audited the City of Socorro, Texas' (the "City") compliance with the types of compliance requirements described in the U.S OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-3, 2012-4 and 2012-5.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on

internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-3 to be a significant deficiency.

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

This report is intended solely for the information and use of management, the Mayor, the City Council, others within the City, and applicable federal grantors, and is not intended to be and should not be used by anyone other than these specified parties.

STRICKLER & PRINCE, LLP

El Paso, Texas
August 20, 2013

CITY OF SOCORRO, TEXAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2012

Grantor/Pass Through Grantor/Program Title	Federal CFDA No.	Contract/Grant Project/State Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development Passed through the Texas Department Housing & Community Affairs:				
Home Investment Partnership Program	14.239	M-07 SG-48-0100	\$ 390,000	\$ 257,567
U.S. Department of Transportation Passed through the Texas Department of Transportation:				
Socorro Middle Safe Routes to School	20.205	CSJ# 0924-06-389	686,824	75,499
Campestre Elementary Safe Routes to School	20.205	CSJ# 0924-06-390	689,993	75,499
Ernesto Serna Elementary and Middle Safe Routes to School	20.205	CSJ# 0924-06-391	689,975	75,499
Escontrias Elementary Safe Routes to School	20.205	CSJ# 0924-06-392	689,565	75,499
Hilley Elementary Safe Routes to School	20.205	CSJ# 0924-06-393	689,736	64,221
Hueco Elementary Safe Routes to School	20.205	CSJ# 0924-06-394	689,296	75,499
Rojas Elementary Safe Routes to School	20.205	CSJ# 0924-06-395	689,985	75,506
Salvador H Sanchez Middle Safe Routes to School	20.205	CSJ# 0924-06-396	689,846	<u>88,941</u>
Total U.S. Department of Transportation				606,163
U.S. Department of Homeland Security Passed through the County of El Paso:				
Operation Stonegarden (OPSG)	97.067	N/A	205,118	174,546
U.S. Department of Justice:				
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	2010-DJ-BX1410	11,014	<u>2,145</u>
Total Expenditures of Federal Awards				<u>\$ 1,040,421</u>
Non-cash assistance				<u>\$ 0</u>

See accompanying auditors' report and notes to schedule of expenditures of federal awards.

CITY OF SOCORRO, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2012

1. BASIS OF PRESENTATION

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

2. BASIS OF ACCOUNTING

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

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal financial assistance programs are reported in the City's financial statements in the Special Revenue Fund.

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statements

Total federal awards expended per Schedule of Expenditures of Federal Awards	\$ 1,040,421
Total expenditures funded by other state and local funds	<u>20,439</u>
Total grants	<u>\$ 1,060,860</u>

4. PROGRAM OR AWARD AMOUNTS

Amounts include contract/award amounts plus any additional reimbursement monies received for fiscal year 2012.

5. INSURANCE REQUIREMENTS

There are no insurance requirements on the federal awards disclosed on the Schedule of Expenditures of Federal Awards.

7. LOANS OR LOAN GUARANTEES

There were no loans or loan guarantees outstanding at year end related to the federal and state awards disclosed on the Schedule of Expenditures of Federal Awards.

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2012

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes No

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

Federal:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	Federal-Aid Highway Program

Dollar threshold used to distinguish between type A and type B programs

Federal \$300,000

Auditee qualified as low-risk auditee? Yes No

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2012-1: 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:

Capital assets were increased approximately \$4,324,000 due to fixed asset additions not being recorded.

Other assets were increased approximately \$109,000 due to incorrect posting of bond proceeds.

Accounts payable were increased approximately \$385,000 primarily due to unrecorded transactions.

Long-term liabilities were decreased approximately \$396,000 due to incorrect posting of bond proceeds and bond payments.

Grant revenue increased approximately \$556,000 primarily due to unrecorded transactions.

Expenses were increased approximately \$817,000 primarily due to unrecorded transactions.

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 transactions were not being recorded.

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:

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.

A grant revenue schedule should be maintained and reconciled on a monthly basis.

Management Response

Management will implement financial reporting controls to ensure the accuracy and completeness of financial activity.

2012-2: Internal Controls over the Disbursement Cycle

Condition

The City did not have adequate internal controls in place over the cash disbursement cycle. During testing of internal controls over accounts payable and cash testwork, we noted that for five out of twenty-five disbursements tested, the purchase order was issued subsequent to the receipt of goods or services.

Criteria

The *codification of Statements on Auditing Standards* (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements.

Policies and procedures should be maintained to ensure proper accounting and to ensure that the internal control structure is adequate and in operation. Controls should include consistent use of purchase orders, proper approval for cash disbursements, and cancellation of purchase documentation upon receipt of goods and subsequent payment.

Cause

Management did not have procedures in place to ensure that internal controls are being followed within the disbursements cycle.

Effect

Improper cash disbursements could be processed, as well as cash disbursements could be made to incorrect vendors or could be made without the receipt of the goods or services. Additionally, transactions could be processed without knowledge of management. The City may also be spending funds that are not budgeted for and available.

Recommendation

To ensure that purchases are initiated with proper approval and to help monitor the volume of purchases due to budget constraints, we recommend that purchase orders be prepared and approved before ordering goods or services. Management should review this process, identify how these instances are occurring and implement stronger controls.

Management Response

Management will implement controls in order ensure the purchasing process is followed.

2011-2: Accrued Income and Receivable not Recorded

Condition

At September 30, 2012, it was discovered that the City did not make the proper adjustment to accrue for municipal court warrants and fines outstanding and agree to the general ledger at the end of the fiscal year.

Criteria

The Governmental Accounting Standards Board, Codification of Governmental Accounting and Financial Reporting Standards (GASB), Section 1100 requires governments to prepare financial statements on the modified accrual basis for governmental type funds and full accrual basis for enterprise funds.

Effect

Not recording an adjustment to agree the receivable balance to the outstanding balance at September 30, 2012 caused the assets of the City to be overstated by approximately \$849,000 and income for the current year to be overstated by approximately \$98,000.

Cause

Proper training and oversight was not maintained over the accounting department. The City keeps their books on the cash basis and has not taken the necessary steps to covert them to the modified accrual basis.

Recommendation

The City should maintain accounting records in compliance with the Governmental Accounting Standards Board. We recommend that the City converts their trial balance to the applicable generally accepted basis prior to the audit. Additionally, we recommend maintaining and training financial accounting staff.

Management Response

Management will ensure financial information is recorded on a modified accrual basis of accounting.

2011-3: Proper Identification and Inventory of Capital Assets Not Maintained

Condition

During our testwork of capital asset equipment additions we noted that newly acquired assets are not properly tagged and inventoried.

Criteria

Proper internal control procedures require the departments to mark capitalized equipment with an asset number or other identifying characteristic that will allow it to be traced from the capital asset records to the physical asset. Proper accounting practices require congruence between the capital asset listing and actual physical existence and for the retention of appropriate supporting records.

Effect

If assets cannot be traced from the capital asset records to the physical asset, the City's risk of asset misappropriation increases. In addition, if the asset cannot be identified in the system upon disposal due to errors such as an inaccurate serial number, capital assets may be overstated. In addition, if assets are purchased with federal funds, the lack of support for the asset could jeopardize future funding and result in non-compliance in equipment handling by the City.

Cause

The tagging or marking of capitalized equipment with an asset number has been assigned to the department heads of the City. Departments are not always diligent about tagging assets with the asset number assigned.

Recommendation

Assets should be tracked and appropriately tagged. City employees responsible for capital assets in the various departments must be informed of the importance of proper accounting for those assets from acquisition to ultimate disposition. Additional training may be necessary to ensure proper procedures are understood and followed. When feasible, city accounting personnel should perform physical observation of assets throughout the year in departments that do not consistently review their capital asset listing.

Management Response

Management will ensure assets are tracked and tagged and physical inventories will be taken when feasible.

2011-4: Capitalization of Work in Progress

Condition

While performing capital asset testwork, we observed capital assets that were not being transferred from construction work in progress to the appropriate capital asset category in the proper fiscal period. In addition, we noted uncompleted projects that were not properly recorded as construction work in progress.

Criteria

Accounting policies and procedures requires that the City implement a systematic and well documented system for accounting of capital assets. The accounting system must be capable of generating lists of capital assets in sequences useful for managing them.

Effect

The ongoing construction projects are not always capitalized at the appropriate time and the prior years existing balance are not being taken into account by the City.

Cause

The City did not perform a roll forward that would track all construction in progress activity. There are no subsidiary reports that are maintained to provide an accurate accounting of project activity at the project level. In addition, the City's fixed asset personnel in the accounting department are dependent on individual departments when determining whether items should be capitalized, or left in construction work in progress.

Recommendation

A construction in progress listing should be maintained which then should be monitored for completion at the project level. Individual projects that meet the capitalization threshold should be capitalized in the fiscal year that the criteria is met. The City should ensure employees with capital asset responsibilities are capable of properly determining when a capital asset should be capitalized.

Management Response

Management will ensure a construction in progress listing is maintained and capitalized when projects are finalized.

2011-5: Proper Accounting of Grant Revenue and Expenditures

Condition

The Special Revenue Fund is used to account for various grants from federal and state agencies and other sources which are restricted by the granting agency to expenditures for a specified purpose. In the current year, the grant receivable balance, grant revenue and grant expenditures had not been reconciled to the Schedule of Expenditures of Federal Awards. This resulted in a current year journal entry of approximately \$475,000 to adjust receivables due from grantors and approximately \$480,000 to adjust grant revenue.

Criteria

Grant accounting recognizes revenues equal to expenditures and that fund balance equals zero since costs in excess of receipts should be recorded as a receivable and receipts in excess of costs should be recorded as deferred revenues. However, there are occasions when grants will require the City to match expenditures. In this case, funds will be transferred from other funds into the Special Revenue fund to meet matching requirements. However, proper accounting practices require tracking of those matching funds or any additional revenue sources.

Effect

Grant revenues and expenditures may not be properly recorded in the financial statements and in the Schedule of Expenditures of Federal Awards. Grantors may subsequently disallow costs if a proper accounting of matching funds, or identification of other sources, is not done. Also, there may be grant funding that the City could lose because it did not spend it in the required time period.

Cause

The City does not have a formal, established, and documented process for identifying, reporting, and reconciling Federal expenditures or awards to the general ledger.

Recommendation

The City should put procedures in place that would improve the tracking of revenue and expenditures by grant, and by federal and non-federal sources in the general ledger, and periodic reconciliations of grant expenditures to grant receipts should be performed.

Management Response

Management will establish procedures to improve the tracking of revenue and expenditure by grant for federal and non-federal programs. Grant reconciliations will be maintained by month.

2011-7: City Council Not Provided Monthly Financial Statements

Condition

Proper management practices include the preparation of monthly financial reports for the City Council and public to review. Investigations with council members indicated that monthly financial information is not provided on a consistent basis.

Criteria

Socorro City Charter section 3.12 (e) states that "the City Council shall, at the end of each month, prepare or have prepared under its direction, a statement as to financial receipts and disbursements for that particular month, and shall have such statement not later than the 25th day of the following month and shall have a copy of said statement available in the office of the City Secretary for examination and a copy will be made, at a reasonable charge, for those who request one."

Effect

Not providing financial information to the city council on a monthly basis precludes the council from monitoring the financial activity of the city on a timely basis.

Cause

The City Manager did not provide the city council with the required financial reports on a monthly basis.

Recommendation

The City should put procedures in place that would ensure that the requirements of the examination of the financial condition by the city council are met. The City Manager should adhere to the city charter requirements and present financial information to the city council by the 25th day of the following month. In addition, all financial information should be made available for public examination as stipulated by the city charter.

Management Response

Management will present financial statements for Council's review.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2012-3: Property Accountability

Funding Agency: Federal Highway Administration (FHWA), Department of Transportation

Title: Safe Routes to School

CFDA Number: 20.205

Condition

The City did not conduct a physical inventory of equipment as required by the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215).

Criteria

The A-102 Common Rule and OMB Circular A-110 require that equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. The City did not conduct an inventory as required by the circular.

Effect

The City is not in compliance with A-102 Common Rule and OMB Circular A-110 requirements.

Cause

The City has not established controls that require the City to conduct inventories in accordance with A-102 Common Rule and OMB Circular A-110.

Recommendation

City management should implement inventory controls that meet the requirements set forth in A-102 Common Rule and OMB Circular A-110.

Management Response

Management will implement inventory controls that meet the requirements set forth in A-102 Common Rule and OMB Circular A-110.

2012-4: Equipment and Real Property Management

Funding Agency: Federal Highway Administration (FHWA), Department of Transportation

Title: Safe Routes to School

CFDA Number: 20.205

Condition

Equipment items acquired with federal program funds were not properly tagged or recorded on the inventory listing with an identifying number. Federal assets are not tracked separately from City assets.

Criteria

The A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of \$5,000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value.

Effect

The Center is not in compliance with A-102 Common Rule and OMB Circular A-110 requirements.

Cause

The fixed asset ledger does not make a distinction between assets purchased with Federal money and assets purchased with City money.

Recommendation

Center management should implement controls that meet the requirements set forth in the A-102 Common Rule and OMB Circular A-110.

Management Response

Management will implement controls that meet the requirements set forth in the A-102 Common Rule and OMB Circular A-110.

2012-5: Data Collection Form

Funding Agency: Federal Highway Administration (FHWA), Department of Transportation

Title: Safe Routes to School

CFDA Number: 20.205

Condition

The Data Collection Form was not submitted to the Federal Audit Clearinghouse within nine months of fiscal year end.

Criteria

In accordance with Office of Management and Budget Circular A-133, the audit shall be completed and the Data Collection Form shall be submitted within nine months after the end of the audit period.

Effect

The City was not in compliance with single audit requirements resulting in the entity being assessed as a high risk entity for future audit periods.

Cause

The fiscal year 2012 financial statements were not completed and submitted timely, causing a delay in filing with the Federal Audit Clearinghouse.

Recommendation

The City should ensure that all elements necessary to complete the financial and federal compliance audits are completed in a timely manner

Management Response

Management will establish processes to ensure timely financial statement issuance with the Federal Audit Clearing House.

D. STATUS OF PRIOR YEAR FINDINGS

2011-1	Lack of Maintaining Adequate Accounting Records Related to Receivables for Fines and Warrants	Resolved
2011-2	Accrued Income and Receivable not Recorded	Repeat
2011-3	Proper Identification and Inventory of Capital Assets Not Maintained	Repeat
2011-4	Capitalization of Work in Progress	Repeat
2011-5	Proper Accounting of Grant Revenue and Expenditures	Repeat
2011-6	Lack of Payroll Supporting Documentation	Resolved
2011-7	City Council Not Provided Monthly Financial Statements	Repeat
