

City of Socorro, Texas

*Basic Financial Statements and
Required Supplementary Information
For the Year Ended September 30, 2013
and Independent Auditors' Report*

CITY OF SOCORRO, TEXAS

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Socorro
Socorro, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of the City of Socorro, Texas (the "City"), as of and for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Requires Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 3 - 9 and 35-36 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, the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Socorro's basic financial statements. The additional schedules listed as "supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules in the supplementary information section 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. Such 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, schedules in the supplementary information section are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2014, on our consideration of the City of Socorro's 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* in considering City of Socorro's internal control over financial reporting and compliance.

White + Samaniego + Campbell, LLP

El Paso, Texas

June 5, 2014

CITY OF SOCORRO, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

This section of City of Socorro annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City of Socorro exceeded its liabilities at the close of the most recent fiscal year end by \$9,374,835 (net position). Of this amount, \$3,339,464 (unrestricted net position) may be used to meet the government's ongoing, obligations to citizens and creditors.
- The government's total net position decreased by \$1,059,030 during the fiscal year. The majority of this is due to the City's receiving less funding through grants in 2013.
- As of September 30, 2013, the City's governmental funds reported combined ending fund balances of \$7,783,443. Of this total, \$3,344,161 is restricted for special revenue, capital projects and other restricted items.
- At the close of the current fiscal year, unassigned fund balance of the general fund was \$4,544,704.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Socorro's finances, in a manner similar to a private-sector business.

The *statements of net position* presents information on all of the City of Socorro, Texas assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Socorro is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Socorro that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Socorro include general government, public works, municipal court, public safety, planning and zoning, public health, special projects, human resources, and the Rio Vista Community Center. 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 a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Socorro, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Socorro are in the governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on *balances of expendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds organized according to their type (general, special revenue, debt services and capital projects). Information is presented separately in governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Services Fund, Special Revenue and Capital Projects Fund, all of which are considered to be major funds.

The City of Socorro adopts an annual appropriated budget for its general fund and all other funds. A budgetary comparison statement has been provided for the all of the governmental funds to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 18 of this report.

Analysis of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$9,374,835 at the close of the current fiscal year.

The largest portion of the City of Socorro, Texas net position represent the City's investment of \$2,950,601 in capital assets (e.g., land, construction in progress, improvements, buildings, infrastructure, and machinery and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$3,339,464 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, for the government as a whole.

Analysis of Changes in Net Position

During the current fiscal year, the City's net position in governmental decreased by \$1,059,030. These decreases are explained in the governmental activities discussion that follows.

Governmental Activities

Governmental activities decreased the City's net position by \$1,059,030. Revenues net of transfers increased from \$6,128,722 for the year ended September 30, 2012 to \$6,942,106 for the year ended September 30, 2013. Governmental expenses increased from \$8,274,377 for the year ended September 30, 2012 to \$8,993,412 for the year ended September 30, 2013, primarily because the City increased its budget and spending slightly. Total revenues and expenses from governmental activities are summarized below.

A summary of the statement of net position is as follows:

Summary of Total Assets:	2013	2012
Current and cash equivalents	\$ 3,970,116	\$ 4,591,789
Restricted cash	4,073,825	6,515,752
Receivables (taxes, grants, other miscellaneous)	3,401,223	3,744,217
Capital assets, net of accumulated depreciation	16,192,533	14,277,014
Other assets	<u>35,959</u>	<u>493,935</u>
Total assets	<u>\$ 27,673,656</u>	<u>\$ 29,622,707</u>
 Summary of Liabilities		
Short-term liabilities	\$ 2,268,862	\$ 1,525,707
Long-term liabilities	<u>16,029,959</u>	<u>17,266,889</u>
Total liabilities	<u>\$ 18,298,821</u>	<u>\$ 18,792,596</u>
 Summary of Net Position		
Net Investment in capital assets	\$ 2,950,601	\$ 4,087,888
Restricted for debt services	85,586	753,721
Restricted for capital outlay	2,999,184	753,721
Unrestricted	<u>3,339,464</u>	<u>2,063,036</u>
Total net position	<u>\$ 9,374,835</u>	<u>\$ 10,830,111</u>

A summary of the statement of activities is as follows:

Program Revenue Summary:	2013	2012
Municipal Court fines and fees	\$ 712,438	\$ (41,137)
Planning and zoning fees	245,686	276,666
Operating grants and contributions	<u>34,152</u>	<u>1,055,859</u>
Total program revenues	992,276	1,291,388
General Revenue Summary:		
Property taxes - general purpose	3,593,190	3,311,301
Property taxes - debt service	1,243,668	837,586
Sales tax	1,511,519	1,378,725
Franchise tax	420,516	428,855
Interest income	851	1,979
Miscellaneous income	<u>172,362</u>	<u>170,276</u>
Total general revenue	6,942,106	6,128,722
Expenditures By Function:		
General government	4,118,261	1,883,687
Public works	111,956	989,968
Municipal court	274,251	293,504
Public safety	2,909,029	2,723,067
Planning and zoning	319,132	274,453
Public health	387,784	391,225
Special projects	121,039	937,287
Rio Vista community center	45,156	222,221
Human resources	111,883	99,822
Interest on long-term debt	<u>594,921</u>	<u>459,143</u>
Total expenditures	<u>8,993,412</u>	<u>8,274,377</u>
Change in net position	(1,059,030)	(854,267)
Net position - beginning	10,830,111	11,684,378
Prior period adjustment	<u>(396,246)</u>	<u>-</u>
Net position - ending	<u>\$ 9,374,835</u>	<u>\$ 10,830,111</u>

Financial Analysis of the City of Socorro as a Whole

As noted earlier, the City of Socorro uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the City of Socorro's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *expendable* resources. Such information is useful in assessing the City of Socorro financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Services Fund and Capital Project Funds.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,783,443, a decrease of \$3,581,203 in comparison with the prior year. Approximately 57% of this total amount, or \$4,439,282, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance, \$3,344,161, is restricted to indicate that it is not available for new spending because it has already been restricted to pay special revenue, capital projects and other restricted items.

Revenues for governmental functions overall totaled \$7,925,188 in the year ended September 30, 2013, which represents a decrease of \$40,604 from the year ended September 30, 2012. Expenditures for governmental functions totaled \$11,506,391 in the year ended September 30, 2013. This was a decrease of \$1,353,671 from the fiscal year-ended September 30, 2012. In the fiscal year-ended September 30, 2013, expenses for governmental functions exceeded revenues by approximately \$3,581,203.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$4,544,704, which consisted of \$0 restricted fund balance and \$4,544,704 unassigned fund balance.

The fund balance of the City's General Fund decreased \$1,035,146 during the current fiscal year.

General Fund Budgetary Highlights

The discussion that follows presents financial data based upon the budgetary basis of accounting. Please refer to the notes of the financial statements for an explanation of the differences of accounting regarding the budget.

During the current fiscal year, the City budgeted general fund revenues at \$6,302,163. The actual revenues for the fiscal year were \$6,391,706, an excess of \$89,543. Taxes were over budgeted by \$21,686 because of the increases in the Property taxes for the year.

Increases in the original budget were made due to additional income received during the fiscal year, allowing the City to increase the budgeted expenditures.

For the year ended September 30, 2013, general government combined with special revenue, debt service, and capital projects expenditures were under budget by \$4,040,100.

Capital Asset and Debt Administration

Capital Assets

The City of Socorro's capital assets for its governmental activities as of September 30, 2013 amount to \$16,192,533 (net of accumulated depreciation). Capital assets include land, construction in progress, improvements, buildings, machinery and equipment, and infrastructure. The total increase in the City's capital assets (excluding accumulated depreciation) for the current fiscal year was \$1,915,519 for governmental activities.

Improvements and infrastructure costing \$1,579,749 was purchased for the City and land and construction in progress of \$1,050,632 was added in the year ended September 30, 2013. There were no deletions in the governmental activities during 2013.

The following is a schedule showing the Net Value of the Capital Assets and the application of the principal balances of the notes as of the fiscal year end:

**Capital Assets, Net of Depreciation
September 30, 2013 and 2012**

	Governmental Activities	
	2013	2012
Land and Construction in Progress	\$ 3,221,986	\$ 2,133,383
Buildings, Equipment and Infrastructure	12,970,547	12,143,631
Capital Assets, Net of A/D	\$ 16,192,533	\$ 14,277,014

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

The Statement of Net Position shows the Net Investment in Capital Assets - Governmental Funds in the amount of \$2,950,601. This investment includes the land, construction in progress, buildings, improvements, infrastructure, machinery and equipment and the waste water system net of all applicable debt service.

The City's long-term debt is summarized as follows:.

**Long-Term Debt
September 30, 2013 and 2012**

	Governmental Activities	
	2013	2012
Certificates of obligation	\$ 16,195,000	\$ 16,795,000
Total Long-Term Debt	\$ 16,195,000	\$ 16,787,198

Contacting the City of Socorro's Financial Management

This financial report is designed to provide a general overview of the City of Socorro's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Socorro Administration; 124 South Horizon Boulevard, Socorro, Texas 79927.

BASIC FINANCIAL STATEMENTS

CITY OF SOCORRO, TEXAS

STATEMENT OF NET POSITION SEPTEMBER 30, 2013

ASSETS

Cash and investments	\$ 3,970,116
Restricted cash	4,073,825
Accounts receivable - grantors	107,671
Other receivables, net	1,549,588
Accounts receivable - taxes	1,743,964
Inventory	25,433
Capital assets, net of accumulated depreciation	16,192,533
Other assets	<u>10,526</u>
Total assets	<u>\$ 27,673,656</u>

LIABILITIES AND NET POSITION

Accounts payable	\$ 1,076,252
Accrued interest payable	47,051
Accrued expense	535,559
Long-term liabilities:	
Bonds payable, current	610,000
Bonds payable, non-current	15,585,000
Unamortized bond premium	<u>444,959</u>
Total liabilities	18,298,821

NET POSITION

Net investment in capital assets	2,950,601
Restricted for:	
Reserved for debt service	85,586
Reserved for capital outlay	2,999,184
Unrestricted	<u>3,339,464</u>
Total net position	<u>9,374,835</u>
Total liabilities and net position	<u>\$ 27,673,656</u>

See accompanying notes to financial statements and independent auditors' report.

CITY OF SOCORRO, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$ 4,118,261	\$ -	\$ -	\$ -	\$ (4,118,261)
Public works	111,956	-	-	-	(111,956)
Municipal court	274,251	712,438	-	-	438,187
Public Safety	2,909,029	-	-	-	(2,909,029)
Planning/zoning	319,132	245,686	-	-	(73,446)
Public health	387,784	-	-	-	(387,784)
Special projects	121,039	-	34,152	-	(86,887)
Rio Vista Community Center	45,156	-	-	-	(45,156)
Human resources	111,883	-	-	-	(111,883)
Interest on long-term debt	<u>594,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(594,921)</u>
Total governmental activities	<u>\$ 8,993,412</u>	<u>\$ 958,124</u>	<u>\$ 34,152</u>	<u>\$ -</u>	<u>(8,001,136)</u>

General Revenues and Transfers:

Taxes:	
Property taxes, levied for general purpose	3,593,190
Property taxes, levied for debt service	1,243,668
Sales taxes	1,511,519
Franchise taxes, for general purpose	405,494
Franchise taxes, for public, educational and government purpose	15,022
Interest income	851
Miscellaneous	<u>172,362</u>
Total general revenues	<u>6,942,106</u>
Change in net position	(1,059,030)
Net position - beginning	10,830,111
Prior period adjustment - fund	58,408
Prior period adjustment - government wide	<u>(454,654)</u>
Net position - ending	<u>\$ 9,374,835</u>

See accompanying notes to financial statements and independent auditors' report.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

CITY OF SOCORRO, TEXAS

**BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
Cash and cash equivalents	\$ 3,970,016	\$ -	\$ 100	\$ -	\$ 3,970,116
Restricted cash	-	73,690	165,825	3,834,310	4,073,825
Accounts receivables - Grantors	-	-	107,671	-	107,671
Other receivable, net	1,142,079	-	407,509	-	1,549,588
Accounts receivable - Taxes	1,476,301	263,851	3,812	-	1,743,964
Inventory	25,433	-	-	-	25,433
Other assets	5,526	-	-	-	5,526
Total assets	\$ 6,619,355	\$ 337,541	\$ 684,917	\$ 3,834,310	\$ 11,476,123
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 222,888	\$ -	\$ 40,300	\$ 813,064	\$ 1,076,252
Accrued expenses	192,825	-	320,672	22,062	535,559
Total liabilities	415,713	-	360,972	835,126	1,611,811
Deferred inflows of resources	1,658,938	251,955	169,976	-	2,080,869
Fund balances:					
Restricted for:					
PEG fee	-	-	42,284	-	42,284
State fee	-	-	53,561	-	53,561
Court building	-	-	7,966	-	7,966
Court tech fund	-	-	35,048	-	35,048
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	-	-	38,098	-	38,098
Committed for:					
2001 CO	-	-	-	82,740	82,740
2012 CO	-	-	-	2,566,962	2,566,962
Assigned	-	85,586	-	349,482	435,068
Unassigned	4,544,704	-	(105,422)	-	4,439,282
Total fund balances	4,544,704	85,586	153,969	2,999,184	7,783,443
Total liabilities, deferred inflows of resources and fund balances	\$ 6,619,355	\$ 337,541	\$ 684,917	\$ 3,834,310	\$ 11,476,123

See accompanying notes to financial statements and independent auditors' report.

CITY OF SOCORRO, TEXAS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Fund balances	\$ 7,783,443
Amounts reported for government activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	16,192,533
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.	(47,051)
Deferred inflows are not available to pay current-period expenditures and, therefore, are deferred in the funds. These are the deferred property taxes of \$1,018,014 and deferred municipal court warrants of 1,062,855.	2,080,869
Long-term liabilities of \$(16,195,000) 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 \$0 and bond premium of \$(444,959)	<u>(16,639,959)</u>
Net position - Statement of Net Position	<u>\$ 9,374,835</u>

See accompanying notes to financial statements and independent auditors' report.

CITY OF SOCORRO, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total
Revenues:					
Property taxes	\$ 3,593,190	\$ 1,190,066	\$ -	\$ -	\$ 4,783,256
Sales taxes	1,511,519	-	-	-	1,511,519
Franchise taxes	405,494	-	15,022	-	420,516
Planning and zoning fees	245,686	-	-	-	245,686
Municipal court	519,703	-	237,143	-	756,846
Interest income	596	-	-	255	851
Grants	-	-	34,152	-	34,152
Other income	115,518	-	56,844	-	172,362
Total revenues	6,391,706	1,190,066	343,161	255	7,925,188
Expenditures:					
General government	2,325,547	-	-	343,575	2,669,122
Public works	1,034,869	-	-	2,487,021	3,521,890
Municipal court	270,254	-	3,149	-	273,403
Public safety	2,690,639	-	13,463	196,340	2,900,442
Planning/zoning	313,136	-	-	229	313,365
Public health	387,784	-	-	-	387,784
Special projects	82,741	-	37,898	-	120,639
Rio Vista Community Center	-	-	-	12,942	12,942
Human resources	111,883	-	-	-	111,883
Principal payments	-	600,000	-	-	600,000
Interest payments	-	594,921	-	-	594,921
Total expenditures	7,216,853	1,194,921	54,510	3,040,107	11,506,391
Excess (deficiency) of revenues over expenditures	(825,147)	(4,855)	288,651	(3,039,852)	(3,581,203)
Other financing sources (uses):					
Operating transfers in	8,494,857	903,758	5,613,582	6,629,435	21,641,632
Operating transfers out	(8,704,856)	(593,811)	(5,995,375)	(6,347,590)	(21,641,632)
Total other financing sources (uses)	(209,999)	309,947	(381,793)	281,845	-
Net changes in fund balances	(1,035,146)	305,092	(93,142)	(2,758,007)	(3,581,203)
Fund balance - beginning of year, as previously stated	5,585,175	(219,506)	251,105	5,689,464	11,306,238
Prior period adjustment	(5,325)	-	(3,994)	67,727	58,408
Fund balance - beginning of year, as restated	5,579,850	(219,506)	247,111	5,757,191	11,364,646
Fund balance - end of year	\$ 4,544,704	\$ 85,586	\$ 153,969	\$ 2,999,184	\$ 7,783,443

See accompanying notes to financial statements and independent auditors' report.

CITY OF SOCORRO, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES SEPTEMBER 30, 2013

The changes in net position reported for governmental activities in the statement of activities are different because:

Net change in fund balances \$ (3,581,203)

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 depreciation expense exceeded capital outlay in the current period.

Depreciation expense	(714,862)	
Capital outlay	<u>2,630,381</u>	
Excess of capital outlay over depreciation expense		1,915,519

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.

Change in deferred property tax inflows	53,601	
Change in deferred municipal court inflows	<u>(44,408)</u>	
Deferred inflows		9,193

Interest expense in the statement of activities differs from the amount reported in governmental funds because additional interest was calculated for the certificates of obligation and notes payable. This is the current year change in accrued interest.

(1,006)

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

Principle payments	600,000	
Bond premium net of amortization	26,929	
Bond issuance cost net of amortization	<u>(483,116)</u>	
Net change in debt		143,813

Prior period adjustment to expense bond issuance cost per implementation of GASB 65.

454,654

Change in net position of governmental activities **\$ (1,059,030)**

See accompanying notes to financial statements and independent auditors' report.

CITY OF SOCORRO, TEXAS

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2013

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.

The City's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

As required by GAAP, the financial statements present the City and entities for which the City is considered to be financially accountable. 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. There are no component units for the fiscal year ended September 30, 2013.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other non-exchange transactions are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. There are no business-type activities conducted by the City.

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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly 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.

C. 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 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. 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

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 year. 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 government's policy to use restricted resources first, then unrestricted resources as they are recorded.

The City follows the following revenue recognition principles applied to nonexchange transactions which are in accordance with GASB *Statement 33, Accounting and Reporting for Nonexchange Transactions*:

Derived tax revenues are recognized as revenue in the period when the underlying exchange transaction has occurred and the resources are available. Derived tax revenues include sales tax and franchise tax.

Imposed nonexchange revenue other than property taxes are recognized in the period when an enforceable legal claim has arisen and the resources are available.

Government-mandated nonexchange transactions and voluntary nonexchange transactions are recognized when all applicable eligibility requirements have been met and the resources are available. These include grant revenues, state shared taxes and intergovernmental revenue. Grant revenues are recognized as revenues when the related costs are incurred.

Other revenues susceptible to accrual are investment income and charges for services. All other revenues are recognized when they are received and are not susceptible to accrual because they are usually not measurable until payment is actually received.

The City reports deferred inflows/outflows on its combined balance sheet. Deferred inflows/outflows arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when resources are received by the City before it has legal claim to the resources, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred inflows and unearned revenue is removed from the combined balance sheet and revenue is recognized.

D. 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:

The City reports the following major governmental funds:

General Fund. The general fund is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for 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 unearned revenue, 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.

E. 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.

F. 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.

G. 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.

H. 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.

I. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the government-wide statement of net position, 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.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments allows phase III governments an exemption from the retroactive application of the capitalization requirements to major general infrastructure assets. The City has elected not to retroactively record infrastructure assets.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings, structures and improvements	39 - 40 years
Machinery and equipment	5 years
Furniture, fixtures and equipment	5-7 years
Vehicles	5 years
Software	3 years
Infrastructure	22-68 years
Leasehold improvements	39 years

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets.

K. Fund Balance

In the fund financial statements, governmental fund balances are classified as follows:

Nonspendable - Fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes amounts to be held in perpetuity.

Restricted - Fund balance should be reported when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation.
- c. Enabling legislation, as the term is used in this Statement, authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation.

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 - Fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The City's policy is to apply restricted resources first, committed sources second, assigned resources third, and unassigned resources last when an expense is incurred for purposes for which all or any fund balance classification is available.

L. Net Position

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net position net investment in capital assets excludes unspent debt proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Accordingly, the City unavailable revenue-property taxes and municipal court warrants in the governmental balance sheet. Unavailable revenue-property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

P. Revenues-Exchange and Non-Exchange Transactions

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.

Q. 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:

R. 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, 2013.

S. Implementation of New 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 objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The City implemented this standard in the current year and no significant effect was noted.

In November 2010, the Governmental Accounting Standards Board (GASB) issued 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 objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The City implemented this standard in the current year and no significant effect was noted.

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. That Statement supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The City implemented this standard in the current year and no significant effect was noted.

In June 2011, the GASB issued 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. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net

position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net position reporting requirements in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position. The City implemented this standard in the current year and no significant effect was noted.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB 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 objective of this Statement is to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The City implemented this standard in the current year. A prior period adjustment totaling \$454,654 was made to expense debt issuance cost incurred to issue bonds in prior years.

In March 2012, the Governmental Accounting Standards Board (GASB) issued GASB 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 objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The City is analyzing the effect that this statement will have on its financial statement, and currently believes it will have no significant effect on the financial statement for the upcoming year.

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.

T. Subsequent Events

Management has evaluated events through June 5, 2014, the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS

Cash and deposits Cash and deposits consist of the items reported below at September 30, 2013:

Bank deposit:	
General fund	\$ 3,881,986
Debt service fund	73,690
Special revenue fund	165,925
Capital projects fund	<u>3,834,310</u>
Total cash and deposits	<u>\$ 7,955,911</u>

Type of Security	Market Value
Total cash and deposits	\$ 7,955,911
Total cash equivalents	<u>88,030</u>
Total deposits and cash equivalents	<u>\$ 8,043,941</u>

As of September 30, 2013, the City had the following cash equivalents:

Investment	Weighted Average Maturity	Fair Value
LOGIC	40 days	<u>\$ 88,030</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, 2013, the carrying amount of the City's deposits was \$7,955,911 and bank balances equaled \$8,182,918. 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 \$9,093,290 as of September 30, 2013.

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

3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE

Grant and Other Receivables and Uncollectible Accounts - Significant receivables include amounts due from grantors for expenditure reimbursements. These receivables are due within one year and expected to be fully collectible. Related amounts are shown as follows.

	Gross	Allowance	Net
Grant receivables	\$ <u>107,671</u>	\$ <u>-</u>	\$ <u>107,671</u>

Property Taxes Receivables, Deferred Revenue, and Property Tax Calendar - Property taxes are levied September 1, in conformity with the Texas Property Tax Code. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$882,857,654 for the year ended September 30, 2013. 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 2012-2013 tax rates were \$0.577847, per \$100 of assessed valuation. The City incurred expenditures of \$60,892 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2013.

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, 2013 is \$1,018,014 of deferred property tax inflows.

4. CAPITAL ASSETS

Governmental fund capital asset activity for the year was as follows:

	Balance September 30, 2012	Additions	Transfers	Balance September 30, 2013
Capital assets not being depreciated:				
Land	\$ 1,512,060	\$ 137,105	\$ -	\$ 1,649,165
Construction in progress	<u>621,323</u>	<u>913,527</u>	<u>37,971</u>	<u>1,572,821</u>
Total capital assets not being depreciated	2,133,383	1,050,632	37,971	3,221,986
Capital assets being depreciated:				
Buildings, structures and improvements	1,636,071	9,435	-	1,645,506
Machinery and equipment	1,476,763	212,702	-	1,689,465
Vehicles	1,419,272	188,340	-	1,607,612
Office furniture and equipment	381,800	60,333	-	442,133
Software	55,378	-	-	55,378
Infrastructure	16,464,235	1,108,939	(37,971)	17,535,203
Leasehold improvements	<u>207,317</u>	<u>-</u>	<u>-</u>	<u>207,317</u>
Total capital assets being depreciated	21,640,836	1,579,749	(37,971)	23,182,614
Less accumulated depreciation for:				
Buildings, structures and improvements	371,612	41,569	-	413,181
Machinery and equipment	1,110,977	171,064	-	1,282,041
Vehicles	1,142,780	91,053	-	1,233,833
Office furniture and equipment	225,275	40,363	-	265,638
Software	55,377	-	-	55,377
Infrastructure	6,517,670	363,000	-	6,880,670
Leasehold improvements	<u>73,514</u>	<u>7,813</u>	<u>-</u>	<u>81,327</u>
Total accumulated depreciation	<u>9,497,205</u>	<u>714,862</u>	<u>-</u>	<u>10,212,067</u>
Total capital assets being depreciated, net	<u>12,143,631</u>	<u>864,887</u>	<u>(37,971)</u>	<u>12,970,547</u>
Governmental activities capital assets, net	<u>\$ 14,277,014</u>	<u>\$ 1,915,519</u>	<u>\$ -</u>	<u>\$ 16,192,533</u>

Depreciation expense for the year ended September 30, 2013 was charged to the following functions:

General government	\$ 17,965
Public works	537,727
Municipal court	848
Public safety	107,381
Planning/zoning	5,766
Rio Vista Community Center	<u>45,175</u>

Total Governmental Activities depreciation expense \$ 714,862

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, 2013, there was no accumulation of vacation leave, since no vacation accrual can be carried over to the next fiscal year.

6. LONG-TERM OBLIGATIONS

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, 2013, rental payments under such leases totaled \$2,736. A total of \$2,464 was paid to Interlease for the admin copier. We also paid \$11,511 to Superior Copy Machines for maintenance and ink. The city paid \$3,481 to Pitney Bowes for rental of the postage machine.

Certificates of Obligations - 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 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 semiannually 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, 2013, are as follows:

Year Ending September 30,	Principal	Interest
2014	\$ 610,000	\$ 583,791
2015	625,000	567,648
2016	645,000	548,954
2017	665,000	529,373
2018	685,000	508,123
2019-2023	3,830,000	2,144,612
2024-2028	4,685,000	1,289,661
2029-2032	<u>4,450,000</u>	<u>324,089</u>
Totals	<u>\$ 16,195,000</u>	<u>\$ 6,496,251</u>

Long-term liability activity for the year ended September 30, 2013, was as follows:

	Balance September 30, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Certificate of obligation	\$ <u>16,795,000</u>	\$ <u>-</u>	\$ <u>(600,000)</u>	\$ <u>16,195,000</u>	\$ <u>610,000</u>

7. FUND BALANCES

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 to the next most restrictive category with available funds.

8. 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, 2013 totaled \$7,967 and the employees contributed \$25,410. Of the total benefits paid by the city \$1,217 is for the participating employees and the remaining \$6,750 is for the City Manager.

9. 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, 2013.

10. 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, 2013.

11. 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.

12. 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 contract was renewed for the period of September 1, 2013 through August 31, 2014 in the amount not to exceed \$454,994.

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 September 30, 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 contract is automatically renewed every year with the agreement that either party can terminate the contract at any time.

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.

13. RESTATEMENT OF PRIOR PERIOD

The City of Socorro has elected to early implement GASB 65. As a result a prior period adjustment for fiscal year ended September 30, 2013 in the amount of \$454,654 was recorded to expense debt issuance cost incurred to issue bonds in prior years. Additionally, a prior period adjustment was made in the net amount of \$58,408. Of the total amount that was adjusted, \$(5,427) is a paid expense booked as accounts payable from the general fund. The City booked and expensed against accounts payable in a prior year resulting in a debit balance. An adjustment in the amount of \$3,910 is accounts payable from the special revenue fund; this amounts was paid in the prior period. A prior period adjustment in the amount of \$(7,802) was made in the special revenue fund, reducing accounts receivable. The balance was collected in prior years. The last adjustment made was to reduce accounts payable in the capital projects fund. The City erroneously booked an accounts payable and expense in the prior year for services provided in relation to capital improvement projects. The adjustment increasing fund balance was for \$67,727.

14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the City carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2013

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenue/inflows:				
Property taxes	\$ 3,550,314	\$ 3,550,314	\$ 3,593,190	\$ 42,876
Sales taxes	1,453,000	1,527,203	1,511,519	(15,684)
Franchise taxes	471,000	411,000	405,494	(5,506)
Planning and zoning fees	308,600	238,750	245,686	6,936
Fines	500,000	505,276	519,703	14,427
Interest income	1,200	1,200	596	(604)
Other income	106,370	68,420	115,518	47,098
Total revenues	6,390,484	6,302,163	6,391,706	89,543
Expenditures/outflows:				
General government	1,541,482	1,775,126	2,325,547	(550,421)
Public works	1,008,293	1,107,595	1,034,869	72,726
Municipal court	285,224	285,355	270,254	15,101
Public safety	2,614,779	2,756,076	2,690,639	65,437
Planning/zoning	377,508	323,722	313,136	10,586
Public health	436,067	387,784	387,784	-
Special projects	230,300	134,128	82,741	51,387
Recreation center	442,158	558,751	-	558,751
Human resources	133,544	135,062	111,883	23,179
Total expenditures	7,069,355	7,463,599	7,216,853	246,746
Excess of expenditures over revenues	(678,871)	(1,161,436)	(825,147)	336,289
Fund balance, beginning of year	5,585,175	5,585,175	5,585,175	-
Prior period adjustment	-	-	(5,325)	(5,325)
Fund balance, beginning of year, as restated	5,585,175	5,585,175	5,579,850	(5,325)
Fund balance, end of year	\$ 4,906,304	\$ 4,423,739	\$ 4,754,703	\$ 330,964
Budget basis			\$ (825,147)	
Transfers in/out net			(209,999)	
GAAP basis			\$ (1,035,146)	

See accompanying notes to required supplementary information.

CITY OF SOCORRO, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND YEAR ENDED SEPTEMBER 30, 2013

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenue/inflows:				
Franchise taxes	\$ -	\$ -	\$ 15,022	\$ 15,022
Fines	-	-	237,143	237,143
Interest income	-	-	-	-
Hotel tax	15,000	15,000	-	(15,000)
Grants	935,000	935,000	34,152	(900,848)
Other income	<u>40,000</u>	<u>40,000</u>	<u>56,844</u>	<u>16,844</u>
Total revenues	990,000	990,000	343,161	(646,839)
Expenditures/outflows:				
General government	15,000	15,000	-	15,000
Public works	-	-	-	-
Municipal Court	-	-	3,149	(3,149)
Public safety	25,000	25,000	13,463	11,537
Special projects	<u>950,000</u>	<u>950,000</u>	<u>37,898</u>	<u>912,102</u>
Total expenditures	<u>990,000</u>	<u>990,000</u>	<u>54,510</u>	<u>935,490</u>
Excess of revenues over expenditures	-	-	288,651	288,651
Fund balance, beginning of year	251,105	251,105	251,105	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(3,994)</u>	<u>(3,994)</u>
Fund balance, beginning of year, as restated	<u>251,105</u>	<u>251,105</u>	<u>247,111</u>	<u>(3,994)</u>
Fund balance, end of year	<u>\$ 251,105</u>	<u>\$ 251,105</u>	<u>\$ 535,762</u>	<u>\$ 284,657</u>
			Budget basis	\$ 288,651
			Transfers in/out net	<u>(381,793)</u>
			GAAP basis	<u>\$ (93,142)</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, 2013

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 2013.

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**

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2013**

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenue/inflows:				
Proceeds for bonds	\$ -	\$ -	\$ -	\$ -
Property taxes	1,194,921	1,194,921	1,190,066	(4,855)
Interest income	-	-	-	-
Total revenues	<u>1,194,921</u>	<u>1,194,921</u>	<u>1,190,066</u>	<u>(4,855)</u>
Expenditures/outflows:				
General government	-	-	-	-
Principal payments	594,921	594,921	600,000	(5,079)
Interest payments	<u>600,000</u>	<u>600,000</u>	<u>594,921</u>	<u>5,079</u>
Total expenditures	<u>1,194,921</u>	<u>1,194,921</u>	<u>1,194,921</u>	<u>-</u>
Excess of revenues over expenditures	-	-	(4,855)	(4,855)
Fund balance, beginning of year	<u>(219,506)</u>	<u>(219,506)</u>	<u>(219,506)</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ (219,506)</u></u>	<u><u>\$ (219,506)</u></u>	<u><u>\$ (224,361)</u></u>	<u><u>\$ (4,855)</u></u>
			Budget basis	\$ (4,855)
			Transfers in/out net	<u>309,947</u>
			GAAP basis	<u><u>\$ 305,092</u></u>

See accompanying notes to financial statements.

CITY OF SOCORRO, TEXAS

**SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 2013**

	Budget Amounts		Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenue/inflows:				
Proceeds from bonds	\$ 5,895,971	\$ 5,895,971	\$ -	\$ (5,895,971)
Interest income	2,000	2,000	255	(1,745)
Other income	-	-	-	-
Total revenues	<u>5,897,971</u>	<u>5,897,971</u>	255	(5,897,716)
Expenditures/outflows:				
General government	-	-	343,575	(343,575)
Public works	5,897,971	5,897,971	2,487,021	3,410,950
Public safety	-	-	196,340	(196,340)
Planning/zoning	-	-	229	(229)
Rio Vista Community Center	-	-	12,942	(12,942)
Total expenditures	<u>5,897,971</u>	<u>5,897,971</u>	<u>3,040,107</u>	<u>2,857,864</u>
Excess of revenues over expenditures	-	-	(3,039,852)	(3,039,852)
Fund balance, beginning of year	<u>5,689,464</u>	<u>5,689,464</u>	<u>5,689,464</u>	-
Fund balance, end of year	<u>\$ 5,689,464</u>	<u>\$ 5,689,464</u>	<u>\$ 2,649,612</u>	<u>\$ (3,039,852)</u>
			Budget basis	\$ (3,039,852)
			Transfer in/out net	<u>281,845</u>
			GAAP basis	<u>\$ (2,758,007)</u>

See accompanying notes to financial statements.

COMPLIANCE SECTION

INDEPENDENT AUDITOR'S 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

Mayor and City Council
City of Socorro
Socorro, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Socorro, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Socorro, Texas' basic financial statements and have issued our report thereon dated June 5, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Socorro, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of City of Socorro, Texas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2011-03).

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 to be significant deficiencies. (2011-07, 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-06 and 2013-07).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Socorro, Texas' financial statements are free from 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 .

City of Socorro, Texas' Response to Findings

City of Socorro, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Socorro, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

White + Samaniego + Campbell, LLP

El Paso, Texas
June 5, 2014

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2013**

STATUS OF PRIOR YEAR FINDINGS

		Current Status
2011-02	Accrued Income and Receivable not Recorded	Resolved
2011-03	Proper Identification and Inventory of Capital Assets Not Maintained	Repeated
2011-04	Capitalization of Work in Progress	Resolved
2011-05	Proper Accounting of Grant Revenue and Expenditures	Resolved
2011-07	City Council Not Provided Monthly Financial Statements	Repeated
2012-01	Material Weakness Relating to Controls over Financial Reporting	Resolved
2012-02	Internal Controls over the Disbursement Cycle	Resolved
2012-03	Property Accountability	Resolved
2012-04	Equipment and Real Property Management	Resolved
2012-05	Data Collection Form	Resolved

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES (continued) YEAR ENDED SEPTEMBER 30, 2013

2011-03: Proper Identification and Inventory of Capital Assets Not Maintained – Material Weakness

Condition

During our testwork of capital asset equipment additions we noted that newly acquired assets are not properly inventoried. The City did not conduct a physical inventory of equipment by the A-102 Common Rule and OMB Circular A-110 (2 CFR part 215).

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 physical existence of the asset and the retention of appropriate supporting records. The City did not conduct a physical inventory as required by the circular. The A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired. 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.

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. Furthermore, 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.

Effect

If assets cannot be traced from the capital asset records to the physical asset, the City's risk of asset misappropriation increases. 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. Consequently, the City cannot identify if there are any missing or obsolete assets reducing the asset value reported.

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 disposition. Additional training may be necessary to ensure proper procedures are understood and followed. When feasible, the City accounting personnel should perform physical observation of assets throughout the year in departments that do not consistently review their capital asset listing. City management should implement inventory controls that meet the requirements set forth in A-102 Common Rule and OMB Circular A-110.

Management's Response

The City will contract an outside firm to perform an inventory of all of the assets of the City. In addition, written policies and procedures will be established and presented to Council for approval.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (continued)
YEAR ENDED SEPTEMBER 30, 2013**

2011-07: City Council Not Provided Monthly Financial Statements – Significant Deficiency

Condition

Proper management practices include the preparation of monthly financial reports for the City Council and the public to review. Interviews 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 no 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."

Cause

The City Manager did not provide the City Council with the required financial reports on the second Thursday of each month.

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.

Recommendation

The City should put procedures in place to ensure 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 second Thursday of each month. In addition, all financial information should be made available for public examination as stipulated by the City Charter.

Management's Response

Management will implement procedures in order to ensure City Council receives monthly financial reports.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (continued)
YEAR ENDED SEPTEMBER 30, 2013**

2013-01: Gas Inventory - Significant Deficiency

Condition

During analytical analysis over fuel consumption, it was noted there were monthly fluctuations in fuel and daily sales that could not be fully explained or justified. Based on interviews, it was noted that there are currently no internal controls in place to monitor the volume of daily fuel consumption. Beginning balances, purchases, consumption and ending balances could not be verified. There were several purchases of gasoline with City gas cards for un-authorized vehicles, unauthorized gas cards and multiple purchases of gasoline on the same day for the same vehicle that did not seem viable. Lack of documentation has limited the ability to identify error amounts, if any.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that 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 (as well as events and conditions) consistent with management's assertions embodied in the financial statements. SAS 115 paragraph 15 states that ineffective oversight of the entity's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency, and a strong indicator of a material weakness in internal control. Further, SAS No. 115 Exhibit B lists the following circumstances as possible control deficiency, significant deficiency, or material weakness: "inadequate documentation of the components of internal control."

Cause

Management does not have adequate documented internal control policies in place, including monitoring and risk assessment policies that would ensure internal controls are in place and operating effectively.

Effect

Adequate controls are not in place to prevent or detect misstatements of accounting information by way of error or fraud, therefore misstatements and non-compliance with internal policies, laws and regulations may occur and not be prevented or detected during the course of their normal duties. The City does not monitor the use of gas cards, thus increasing the risk that City funds and inventory may be misused through multiple un-authorized purchases. Furthermore, the City won't be able to mitigate the risk fraud, waste or abuse.

Recommendation

The City of Socorro administration should implement procedures to ensure fuel sales and purchases are monitored in order to properly safeguard assets and ensure compliance with internal policies, laws and regulations. If proper controls were in place to monitor these factors, any misappropriations could be detected.

Management's Response

The City will implement procedures to ensure gas consumption and purchases are monitored. Written policies and procedures will be adopted in order to properly safeguard gas inventory.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (continued)
YEAR ENDED SEPTEMBER 30, 2013**

2013-02: Computer Information System Policy - Significant Deficiency

Condition

The City of Socorro does not have a documented policy and procedure manual for their Computer Information System.

Criteria

Texas Local Government Code - Section 203.021.3 states that the governing body of a local government shall facilitate the creation and maintenance of local government records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures, and essential transactions of the local government and designed to furnish the information necessary to protect the legal and financial rights of the local government, the state, and persons affected by the activities of the local government.

Cause

The City has not placed a high priority to adopting policies and procedures for their Computer Information system.

Effect

Since Computer Information System policies and procedures are not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly safeguard assets and ensure compliance with internal policies, laws and regulations. Adequate controls are not in place to prevent or detect misstatements of accounting information, therefore misstatements and non-compliance with internal policies, laws and regulations may occur and not be prevented or detected by management or staff during the course of their normal duties.

Recommendation

The information system policy manual is a generally accepted tool to help ensure the best results in connection with the planning function, budgeting, training and maximizing strategic productivity for computer systems. The City of Socorro should implement policies and procedures for their Computer Information system.

Management's Response

The City will adopt an information system policy manual.

CITY OF SOCORRO, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES (continued) YEAR ENDED SEPTEMBER 30, 2013

2013-03: Accounting Policies and Procedures Manual - Significant Deficiency

Condition

The City of Socorro does not have a formal accounting policies and procedures manual. The City has procedures established by each department; however, the procedures have not been compiled into one accounting policies and procedures manual that has been approved by the governing board of the City of Socorro.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that 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 (as well as events and conditions) consistent with management's assertions embodied in the financial statements. SAS 115 paragraph 15 states that ineffective oversight of the entity's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency, and a strong indicator of a material weakness in internal control. Further, SAS No. 115 Exhibit B lists the following circumstances as possible control deficiency, significant deficiency, or material weakness: "inadequate documentation of the components of internal control."

Cause

The ongoing changes in the City's policies, information systems and related financial reporting and accounting principles applicable to local governments have not been reduced to a specific accounting manual approved by management and the City Council.

Effect

Not documenting formal accounting policies and procedures could allow employees to incorrectly reflect transactions that have occurred. Incorrect transactions can lead to the misstatement of financial data prepared by the finance department.

Recommendation

Elements of an effective internal control system includes guidelines on whom, how and when the more significant accounting transactions should be authorized, recorded and reconciled during the accounting cycle. Formal documented accounting procedures increases the likelihood that transactions are executed in accordance with management's intentions and recorded in accordance with accounting policies established by the federal and state governments along with generally accepted accounting principles. The City should review all of the procedures from each department, make the appropriate changes, and adopt an accounting manual that is approved by management and the City Council.

Management's Response

Management will review all of the procedures from each department, make the appropriate changes, and adopt an accounting manual that is approved by Management and City Council.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (continued)
YEAR ENDED SEPTEMBER 30, 2013**

2013-04: Information System Recovery Plan - Significant Deficiency

Condition

The City of Socorro does not have an approved plan for information system recovery of technology.

Criteria

The Texas Administrative Code, Section 202.24(a) states that state agencies shall maintain written Business Continuity Plans that address information resources so that the effects of a disaster will be minimized, and the state agency will be able either to maintain or quickly resume mission-critical functions. The state agency head or his or her designated representative(s) shall approve the plan. The plan shall be distributed to key personnel and a copy stored offsite.

Cause

The City has not placed a high priority to adopting a formal plan for the recovery of technology information.

Effect

System usage could be impaired or rendered useless for a significant period of time, which could severely impact the City's ability to conduct daily operations. If a formal plan was adopted, productivity and effectiveness could be increased with sound information system and technology planning.

Recommendation

The City should adopt a recovery plan that would provide procedures and processes for appropriate computer locations. The plan should address items including but not limited to: system redundancy, data storage, system firewall monitoring, back-up systems, restoration, contact personnel, and vendors. The adopted plan should be tested and communicated to all necessary parties. Annually, the plan should be assessed by information system personnel for content and revised with approvals when appropriate or necessary.

Management's Response

The City will adopt an information system recovery plan. The plan will be assessed annually and revised when appropriate.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (continued)
YEAR ENDED SEPTEMBER 30, 2013**

2013-05: Procurement Policy - Significant Deficiency

Condition

There are no policies or procedures for offering new services and a conflict of interest form is not available for all vendors.

Criteria

The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that 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 (as well as events and conditions) consistent with management's assertions embodied in the financial statements. SAS 115 paragraph 15 states that ineffective oversight of the entity's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency, and a strong indicator of a material weakness in internal control. Further, SAS No. 115 Exhibit B lists the following circumstances as possible control deficiency, significant deficiency, or material weakness: "inadequate documentation of the components of internal control."

Cause

The City does not have documented policies to ensure new vendors are properly approved.

Effect

Because the internal control structure is inadequate and not documented, management and staff are unsure about what procedures and processes to follow or what key controls are in place to properly approve new vendors. Vendors may be approved without going through an adequate review process that prevents and detects any errors, improper purchases or conflict of interest matters.

Recommendation

The City of Socorro should adopt procurement policies and procedures that are in compliance with internal policies, laws and regulations. The city should ensure each vendor is evaluated to identify a conflict of interest.

Management's Response.

Management will revise the current Purchasing Policy to ensure controls are in place to properly approve new vendors and to ensure conflict of interest forms are filled out by vendors and filed appropriately by City staff.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (continued)
YEAR ENDED SEPTEMBER 30, 2013**

2013-06: Restricted Funds - Significant Deficiency

Condition

The 2001 CO beginning balance was \$500,000. Through review of supporting documentation, expenses of \$226,775 can be traced to the improvements done on the municipal court and planning and zoning buildings. Consequently, it is estimated that restricted funds available to serve the 2001 CO purpose should total \$273,225. The City only has funds restricted of \$82,740 for the 2001 CO. This leaves a possible shortage of \$190,485.

Criteria

Ordinance No. 219, dated May 3, 2001, authorized the issuance of a certificate of obligation in the amount of \$500,000. The stated purpose was to pay for all or a portion of the city's contractual obligations incurred in connection with: (i) construction and equipment of renovations and improvements to the planning department and courts building, the museum building and other buildings within Rio Vista Farm Historic District to be used for the City purposes, and (ii) legal, fiscal and engineering fees in connection with such projects.

Cause

The City has experienced high turnover, thus no one employee has taken responsibility for appropriate management and tracking of funds, and the allowable uses for them.

Effect

The City may have a possible shortage in the amount of \$190,485 for the 2001 CO, resulting in the violation of Ordinance No. 219. The inability to identify and substantiate the spent funds increases the risk of fraud, waste and/or abuse.

Recommendation

The City should ensure that tracking and reporting of CO's is completed and reviewed on a regular basis by management. Furthermore, the balances should be presented to City Council to ensure the budget appropriately accounts for expenditures paid by restricted funds. Future expenses paid for by restricted monies must support the intended purpose, and supporting documentation should be retained to substantiate the use of these funds. The City should perform a detailed review of expenses to determine the correct balance of restricted funds for the 2001 CO and where the funds were spent.

Management's Response

Management will perform a detailed review of expenses for the 2001 Certificate of Obligation to determine the correct balance. In addition, any new issuance and current Certificate of Obligation balances will be tracked for accuracy through the budgetary process and presentation to Council. Documentation for each Certificate of Obligation will be kept in a separate file.

CITY OF SOCORRO, TEXAS

**SCHEDULE OF FINDINGS AND RESPONSES (concluded)
YEAR ENDED SEPTEMBER 30, 2013**

2013-07: Cash Reconciliation - Significant Deficiency

Condition

While performing cash testwork, it was discovered that The City of Socorro has not reconciled their CD account for the past three years. In addition, there were two outstanding payroll checks totaling \$1,896 from 2006 and 2007 and three outstanding checks totaling \$74,437 made payable to Wells Fargo Visa Card found in the bank reconciliation for the checking account.

Criteria

Texas Local Government Code - Section 113.008.d states that the county treasurer shall: (1) reconcile all balances and transactions for each treasury account in the county depository's statement of activity to the transactions and balances shown on the treasurer's records; and (2) ensure all financial adjustments are made regarding the depository account as required. Furthermore, the Texas Property Code, Title 6, Chapter 76 requires counties, cities, school districts and junior colleges to report and remit abandoned property valued over \$100 to the Texas Comptroller of Public Accounts office in accordance with Chapters 72-75. Good accounting practices require that bank reconciliation's be performed monthly to ensure that cash receipts and cash disbursements are recorded in a correct and timely manner and that differences or errors be followed up and corrected in a timely manner.

Cause

The City's accounting department has encountered substantial turnover and new employees did not receive proper training which caused a lapse of duties.

Effect

Without the reconciled bank statement, the City has no assurance that the accrued interest has been recorded. The outstanding items in the bank reconciliation's increase the risk of errors or irregularities in the area of cash; further, the City maybe understating their assets..

Recommendation

The City's Accounting Policies and Procedures manual should contain explicit instructions for all accounting related matters, as well as detailed instructions on the storage of monthly schedules used for reconciliation purposes. The City should follow up and address any issues with outstanding checks on a regular basis.

Management's Response

Management will reconcile the FNB CD account monthly. The accounting policies and procedures will establish controls to ensure all bank reconciliation's are performed.