

**CITY OF SANTA FE, Texas**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**CAMBIANO & CAMBIANO, P.C.**  
**Certified Public Accountants**  
**Santa Fe, Texas**

**CITY OF SANTA FE, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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**INTRODUCTORY SECTION**

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**CITY OF SANTA FE, TEXAS  
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**CITY COUNCIL**

|                               |                       |
|-------------------------------|-----------------------|
| <b>Ralph Stenzel</b>          | <b>Mayor</b>          |
| <b>Pat McCrary</b>            | <b>Mayor Pro-Tem</b>  |
| <b>Jeff Tambrella</b>         | <b>Council Member</b> |
| <b>Wanda Wagner</b>           | <b>Council Member</b> |
| <b>Joe Carothers</b>          | <b>Council Member</b> |
| <b>Ronald "Bubba" Jannett</b> | <b>Council Member</b> |

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|                    |                     |
|--------------------|---------------------|
| <b>Joe Dickson</b> | <b>City Manager</b> |
|--------------------|---------------------|

|                    |                                 |
|--------------------|---------------------------------|
| <b>Janet Davis</b> | <b>City Secretary/Treasurer</b> |
|--------------------|---------------------------------|

**FINANCIAL SECTION**

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Accountants and Texas Society of  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and  
Members of the City Council  
City of Santa Fe  
Santa Fe, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Santa Fe, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Santa Fe, Texas, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2013 on our consideration of the City of Santa Fe, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, budgetary comparison information on pages 60 through 66, and the schedule of funding progress on page 67, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section on page 1 and other supplementary information included on pages 68 through 77 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, included on page 82, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The introductory and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



**Cambiano and Cambiano, P.C.**  
Santa Fe, Texas

June 12, 2013

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012**

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This section of the City of Santa Fe, Texas' annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2012. Please read it in conjunction with the basic financial statements and the accompanying notes to basic financial statements, which follow this section.

***FINANCIAL HIGHLIGHTS***

- The assets of the City exceeded its liabilities at the close of the fiscal year ending September 30, 2012 by \$19,323,662 (net assets). Of this amount, \$626,398 (unrestricted net assets) may be used to meet the government's ongoing obligations in accordance with the City's fund designation and fiscal policies, \$314,001 is for restricted uses, and \$18,383,263 are capital assets, net of related debt.
- The City's total net assets decreased by \$782,978 compared to a decrease of \$202,549 in the prior year. Please see Table 2, page 8 for a more detailed analysis of the change in net assets.
- In contrast to the government-wide statements, the fund statements reported a combined fund balance at year-end of \$1,382,305, a decrease of \$139,760 from the prior year. Of this amount, \$1,068,304 is available for use at the City's discretion.
- The City's total capital lease debt increased by a net of \$16,237 during the current fiscal year due to the incurring of new debt of \$205,355 less principal payments of \$189,118.

***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is intended as an introduction to the City of Santa Fe, Texas basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains Required Supplementary Information along with related notes and Other Supplementary Information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities. These two statements are designed to provide readers with a broad overview of the City's finances utilizing the full accrual method of accounting, in a manner similar to a private-sector business. Under the full accrual method of accounting, transactions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, assets, liabilities, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

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serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This statement combines and consolidates governmental funds current financial resources (short term spendable resources) with capital assets and long-term obligations.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and governmental 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).

- Governmental activities include most of the City's basic services (general government administration, tax, community service, judicial/police, fire marshal, public safety, library, streets, parks, and community center). Property taxes, sales taxes, and franchise fees primarily finance these activities.
- The City does not have any business-type activities.

The government-wide financial statements can be found on pages 15 through 17 of this report.

**Fund Financial Statements**

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, each of which is defined as a fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental fund types.

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, the governmental funds financial statements utilize the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Comparing the information presented for governmental funds with the information presented for governmental activities in the government-wide financial statements will help the reader to better understand the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet, statement of revenues, expenditures, and changes in fund balances include a reconciliation to provide such comparison.

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

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The City maintains two governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, which is a major fund. The City also reports their federal grant programs as Special Revenue Funds. These Special Revenue Funds do not meet the criteria for a major program, but the City believes the activities in this fund are significant since they are funded by federal grant money.

The governmental fund financial statements can be found on pages 18 through 27 of this report.

**Notes to Basic 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 Basic Financial Statements can be found immediately following the basic financial statements on pages 28 through 59.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information related to budgetary comparative information for the General Fund and Special Revenue Fund. It also includes the Schedule of Funding Progress of the City's retirement plan. Notes to Required Supplementary Information are also included in this section.

The Required Supplementary Information can be found on pages 60 through 67 of this report.

**Other Supplementary Information**

This section presents information, in the form of schedules, which support the information in the basic financial statements. This information can be found on pages 68 through 77 of this report.

***FINANCIAL ANALYSIS OF THE CITY AS A WHOLE  
(GOVERNMENT-WIDE FINANCIAL ANALYSIS)***

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$19,323,662 at the close of the current fiscal year.

As shown in Table 1, as of September 30, 2012, the largest portion of the City's net assets (95.1%) reflects its investments in capital assets (e.g. land, buildings, equipment, improvements, radios, vehicles, computers, furniture and fixtures, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens. Therefore, these assets are not available for future spending. 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.

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

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**Table 1  
Net Assets**

|   | <u>Governmental Activities</u> |                     |
|---|--------------------------------|---------------------|
|   | <u>2012</u>                    | <u>2011</u>         |
| Current and other assets                        | \$ 2,733,151                   | \$ 2,758,822        |
| Capital assets                                  | <u>18,695,246</u>              | <u>19,267,514</u>   |
| Total Assets                                    | <u>21,428,397</u>              | <u>22,026,336</u>   |
| Current and other liabilities                   | 1,192,152                      | 1,080,124           |
| Long-term liabilities                           | <u>912,583</u>                 | <u>839,571</u>      |
| Total Liabilities                               | <u>2,104,735</u>               | <u>1,919,695</u>    |
| Net Assets:                                     |                                |                     |
| Invested in capital assets, net of related debt | 18,383,263                     | 18,971,767          |
| Restricted                                      | 314,001                        | 323,272             |
| Unrestricted                                    | <u>626,398</u>                 | <u>811,602</u>      |
| Total Net Assets                                | <u>\$ 19,323,662</u>           | <u>\$20,106,641</u> |

Governmental type activities decreased the City's net assets by \$782,978 during the current fiscal year. The following table provides a summary of the City's operations for the year ended September 30, 2012.

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

**Table 2  
Changes in Net Assets**

|   | <b>Governmental Activities</b> |                      |
|---|--------------------------------|----------------------|
|   | <u>2012</u>                    | <u>2011</u>          |
| <b>Revenues:</b>  |                                |                      |
| <b>Program revenues:</b>  |                                |                      |
| Charges for services  | \$ 365,286                     | \$ 416,165           |
| Operating grants and contributions  | 76,884                         | 58,117               |
| Capital grants and contributions  | 879,116                        | 1,895,600            |
| <b>General revenues:</b>  |                                |                      |
| Property taxes  | 1,694,549                      | 1,654,718            |
| Sales tax   | 1,369,212                      | 1,327,302            |
| Franchise tax and contract fees   | 790,752                        | 704,276              |
| Investment earnings   | 8,626                          | 7,847                |
| Penalties and interest on property taxes  | 32,989                         | 35,827               |
| Gain (loss) on sale of capital assets   | (26,607)                       | (12,537)             |
| Other   | 11,405                         | 5,896                |
| <b>Total Revenues</b>   | <u>5,202,212</u>               | <u>6,093,211</u>     |
| <b>Expenses:</b>  |                                |                      |
| General government administration   | 588,835                        | 532,524              |
| Tax   | 13,300                         | 14,233               |
| Community service   | 276,288                        | 284,622              |
| Judicial/Police   | 2,476,600                      | 2,330,072            |
| Fire marshal  | 15,623                         | 14,366               |
| Public safety   | 66,459                         | 53,108               |
| Library   | 198,253                        | 204,607              |
| Streets   | 1,403,754                      | 1,363,547            |
| Parks   | 66,050                         | 107,174              |
| Community center  | 24,933                         | 23,896               |
| Interest on long-term debt  | 5,182                          | 6,515                |
| Texas Community Development Block Grant (TxCDBG);<br>Disaster Recovery Grant Program;<br>Contract #GLO10-5184-000-5167 - Round 1  | 333,861                        | 1,359,596            |
| Texas Community Development Block Grant (TxCDBG);<br>Disaster Recovery Grant Program;<br>Contract #GLO12-228-000-5529 - Round 2.1 | 509,402                        | -                    |
| Texas Community Development Block Grant (TxCDBG);<br>Disaster Recovery Grant Program;<br>Contract #GLO13-078-000-7101 - Round 2.2 | -                              | -                    |
| Energy Efficiency & Conservation Block Grant (EECBG)<br>Program; American Recovery & Reinvestment Act (ARRA);<br>Contract #CS0362 | 6,650                          | 1,500                |
| <b>Total Expenses</b>   | <u>5,985,190</u>               | <u>6,295,760</u>     |
| <b>Increase(decrease) in net assets</b>   | <b>(782,978)</b>               | <b>(202,549)</b>     |
| <b>Net assets at beginning of year</b>  | <u>20,106,640</u>              | <u>20,309,190</u>    |
| <b>Net assets at end of year</b>  | <u>\$ 19,323,662</u>           | <u>\$ 20,106,641</u> |

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

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Key elements of the analysis of government-wide revenues and expenses reflected in Table 2 above are as follows:

- Program revenues of \$1,321,286 equaled 22.1% of government expenses of \$5,985,190. As expected, general revenues (\$3,880,926) provided the required support and coverage for expenses. Property taxes, sales taxes, and franchise and contract fees provided a majority of the general revenues.
- A majority of the expenses are judicial/police (\$2,476,600), while this category provided about 5.7% of the total revenues of (\$5,202,212). The majority of the expenses in this category were incurred for salary & benefits (\$2,000,060) and supplies and materials (\$167,714).
- The next largest category of expenses is streets (\$1,403,754) at 23.5%. The more significant expenses in this category are related to salary and benefits (\$442,420), maintenance and repairs (\$65,091), supplies and materials (\$70,032), and depreciation (\$784,185).
- For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

***FINANCIAL ANALYSIS OF THE CITY'S FUNDS  
(GOVERNMENTAL FUNDS FINANCIAL ANALYSIS)***

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

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Santa Fe's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of (\$1,382,305), a decrease of \$139,760 in comparison with the prior year. Approximately 77% of this amount (\$1,068,304) is unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for future budget requirements (\$295,645) and library expansion (\$18,356).

The fund balance of the City's General Fund decreased by \$139,760 during the current fiscal year. Key factors are as follows:

- \$361,667 in expenditures over revenues – revenues were \$408,375 less than the prior year. Revenues were greater than the prior year related to property taxes (\$32,563), franchise and contract fees (\$89,013), sales tax (\$41,910), and municipal fines and cash bond forfeits

CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012

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(\$10,667). Revenue decreases were noted from licenses and permits (\$54,931), intergovernmental revenues (\$531,959), and penalty and interest, property taxes (\$4,300). The decrease in intergovernmental revenues was a result of no street and street improvement contributions from the County of Galveston in the current fiscal year. Expenditures were \$415,103 less than the prior year. Significant expenditure decreases were related to parks (\$39,396) and capital expenditures (\$612,607). The large decrease in capital expenditures was related to no capital asset contributions from the County of Galveston (\$536,004) in the current fiscal year. Expenditure increases were noted in general government administration (\$65,226), judicial/police (\$111,332), public safety (\$13,351), streets (\$14,232), and principal retirement of debt (\$42,286).

- \$221,907 in other financing sources – this resulted from an on-line public auction that generated \$16,552 from the sale of old declared surplus property and \$205,355 from capital lease proceeds.

***GENERAL FUND BUDGETARY HIGHLIGHTS***

The budget is prepared in accordance with budgetary policies approved by the City Council. The budget is prepared in accordance with accounting principles generally accepted in the United States of America by the City Manager and approved by the City Council following a public hearing.

The following is a brief review of the budgetary changes from the original to the final budget.

- A net increase in the revenue budget of \$118,860. Budget increases were related to franchise and contract fees (\$88,000), municipal fines and cash bond forfeits (\$8,358), intergovernmental revenues (\$1,224), and other revenues (\$21,278).
- The other financing sources had an increase of \$221,907. This increase is attributed to an increase in capital lease contracts of \$205,355 and proceeds from the sale of capital assets of \$16,552, as Council decided to sell old surplus property.
- A net increase in the budget for expenditures of \$304,111. Some of the significant increases can be summarized as follows:

*General government administration* – an increase of \$51,551. The majority of this increase was related to civil service legal expenses.

*Judicial/Police* – an increase of \$40,439. This increase was related to professional contract services (\$11,393) and supplies and materials (\$30,233).

*Capital expenditures* – an increase of \$207,183. Most of this increase was the result of new capital purchases from other financing source proceeds.

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

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The following are significant variations between the final budget and actual amounts.

- Actual General Fund Revenues of \$4,335,047 were less than budgeted revenues of \$4,345,986 by \$10,939. Actual revenues exceeding the final budget was generated by sales tax (\$64,212). Actual revenues that did not meet budgeted expectations were related to licenses and permits (\$35,988) and municipal fines and cash bond forfeits (\$41,940). The actual other financing sources of \$221,907 were less than the budgeted amount of \$490,185 by \$268,278. This was the result of less actual appropriated fund balance of \$268,278 than needed.
- Actual expenditures of \$4,696,714 were less than final budgeted expenditures of \$4,836,171 by \$139,457. All departments' actual expenses were under the final budget. The Judicial/Police Department had the most significant actual expenses under the budget of \$90,313.
- Final budgeted amounts projected no increase or decrease in fund balance. The actual net change in fund balance was a decrease of \$139,760.

***CAPITAL ASSETS AND DEBT ADMINISTRATION***

**Capital Assets**

The City of Santa Fe's investment in capital assets for its governmental activities as of September 30, 2012, amounts to \$18,695,246, net of accumulated depreciation. This investment in capital assets includes land, buildings, building improvements, computers, equipment, furniture and fixtures, infrastructure, radios, and vehicles.

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

**Table 3 - Capital Assets**

|  | <b>Governmental Activities</b> |                      |
|--|--------------------------------|----------------------|
|  | <b>2012</b>                    | <b>2011</b>          |
| Land   | \$ 574,548                     | \$ 574,548           |
| Buildings  | 681,068                        | 681,068              |
| Building improvements                            | 283,445                        | 283,445              |
| Computers  | 320,437                        | 304,139              |
| Equipment  | 1,216,093                      | 1,132,066            |
| Furniture and fixtures                           | 14,606                         | 14,606               |
| Improvements (other than buildings)              | 92,099                         | 92,099               |
| Infrastructure                                   | 26,845,854                     | 26,845,854           |
| Infrastructure improvements                      | 3,929,467                      | 3,775,576            |
| Radios   | 195,751                        | 191,986              |
| Vehicles   | 649,515                        | 647,590              |
| <b>Total Capital Assets</b>                      | <b>34,802,883</b>              | <b>34,542,977</b>    |
| <b>Less: Accumulated depreciation</b>            | <b>(16,107,637)</b>            | <b>(15,275,463)</b>  |
| <b>Total capital assets, net of depreciation</b> | <b>\$ 18,695,246</b>           | <b>\$ 19,267,514</b> |

Some of the City's major capital asset events in the current fiscal year were:

- The General Fund purchased capital assets during the 2011-2012 fiscal year amounting to \$410,522. The more significant purchases were infrastructure improvements (\$153,891), Four 2013 Dodge police chargers (\$107,896), a used Chevy Silverado (\$16,080), asphalt street paver (\$60,809), police canine transport unit (\$2,047), 3 video camera systems (\$16,770), light bar and installation for police vehicles (\$1,753), and a new air condition system at city hall (\$32,729).

Additional information on the City of Santa Fe's capital assets can be found in Note 4 on pages 39 through 40 of this report.

**Long-Term Debt**

The City's outstanding long-term liabilities, which are comprised of capital lease obligations, compensated absences, and net pension obligation, totaled \$1,041,006 at September 30, 2012. The total amount was in governmental activities. The capital lease obligations increased \$16,237 in the year ending September 30, 2012. This was a net result of new financing of \$205,355 and principal debt payments of \$189,118. The compensated absences had a net increase of \$56,960. The City has not been able to contribute the full retirement rate for the fiscal year end 2009 through 2012. This created an actual contribution that was less than the actuarially determined annual required contribution (ARC), and therefore, a net pension obligation of \$120,229 has been created.

CITY OF SANTA FE, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)  
 SEPTEMBER 30, 2012

Table 4 -Long-Term Debt

|                        | <u>Governmental Activities</u> |                   |
|------------------------|--------------------------------|-------------------|
|                        | <u>2012</u>                    | <u>2011</u>       |
| Capital leases         | \$ 311,983                     | \$ 295,746        |
| Compensated absences   | 608,794                        | 551,834           |
| Net pension obligation | <u>120,229</u>                 | <u>111,345</u>    |
| Total long-term debt   | <u>\$ 1,041,006</u>            | <u>\$ 958,925</u> |

Additional information on the City of Santa Fe's long-term debt can be found in Note 5 on pages 40 through 41 of this report.

***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

The annual budget is developed to provide efficient, effective, and economic uses of the City's resources, as well as a means to accomplish the highest priority objectives. Through the budget, the City Council sets the direction of the City of Santa Fe, allocates its resources, and establishes its priorities.

In considering the budget for the 2012-2013 fiscal year, the City Council and management considered the following factors:

- The City's largest source of revenue in the general fund is the ad valorem taxes. The City's 2012 adopted tax rate of \$0.3147 per \$100 valuation was the same as the effective tax rate, even though slightly higher, approximately 1 percent, than the 2011 tax rate of \$0.3114. The tax rate still consists entirely of maintenance and operations (M&O) with no debt service (I&S). The taxable value for 2012 is \$562,062,353, an increase of \$801,562 from last year's value of \$561,260,791. The value of new improvements and new personal property located in the City is \$5,720,794 and property in territory annexed by the city in 2011 and added to the 2012 appraisal roll is \$4,882,556. Including annexed territory, land values increased slightly by \$898,880, just over one-half percent from the 2011 value of \$178,281,742, and the homestead cap adjustment for 2012 was \$1,832,797, compared to the 2011 cap of \$4,752,687. The City Council established a tax freeze on the property tax amount imposed on the residence homesteads of disabled individuals and individuals age 65 and older. The value of properties under the tax ceiling is \$90,418,060, or approximately 16 percent of the taxable value, as compared to last year's value of \$85,976,473, or 15 percent of the taxable value.
- The City's second largest source of revenue in the general fund is sales tax. The city projects a modest increase from the prior year budget of \$1,305,000, to \$1,395,000, approximately 6 percent.
- Other significant general revenues are building and permit fees and municipal court fines. The budget projection for license and permit fees for 2012-2013, excluding community park fee revenue and related projects, is expected to decrease 15 percent from \$135,900, to \$114,575,

**CITY OF SANTA FE, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
SEPTEMBER 30, 2012**

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consisting almost entirely of a decrease in development-related fees of \$102,500, as compared to \$124,500 from development fees projected in fiscal year 2011-2012. Municipal court fine budgeted revenues are expected to decrease from \$250,000 to \$200,000, or 20 percent, even as new technology, collection programs, and credit card services have been implemented in an effort to improve long-term collections.

- Budgeted interest earnings are projected to remain the same at \$10,000 as the global economic downturn remains in force but banking incentive programs and longer-term investment instruments are utilized to improve yield.
- For the 2012-2013 fiscal year, the City appropriated \$295,645 of the available fund balance for general fund spending. This leaves \$992,670 in estimated reserves, which is about 22 percent of general fund appropriations. The City's policy is to maintain general fund reserves of a least 3 months operating expenses, estimated to be \$1,141,890 for the 2012-2013 fiscal year, or 25 percent of operating expenses.
- If all budget estimates are realized, the total general fund unreserved fund balance is projected to be \$992,670 at September 30, 2013, a 15 percent decrease from last year's projection of \$1,178,245 and slightly over 3 percent, or \$149,220, short of the target reserve amount established by city policy.

The City's financial management policies set the guideline to maintain the fund balance and net assets of the city at levels sufficient to protect the creditworthiness as well as its financial position from unforeseeable emergencies.

***CONTACTING THE CITY'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, customers, investors, creditors, and other interested parties with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Santa Fe's City Manager or City Secretary at 12002 Highway 6, PO Box 950, Santa Fe, Texas 77510, or call 409-925-3558.

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**BASIC FINANCIAL STATEMENTS**

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**CITY OF SANTA FE, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**

**STATEMENT 1**

|   | <u>Primary Government</u> |                      | <u>Component Unit - Santa Fe<br/>Economic Development<br/>Corporation</u> |
|---|---------------------------|----------------------|---|
|   | <u>Governmental</u>       |                      |   |
|   | <u>Activities</u>         | <u>Total</u>         |   |
| <b>ASSETS</b>   |                           |                      |   |
| Cash and cash equivalents   | \$ 942,210                | \$ 942,210           | \$ 46,083   |
| Investments:  |                           |                      |   |
| Tex Pool  | 5,050                     | 5,050                | 99,563  |
| Logic   | 187,642                   | 187,642              | 436,585   |
| Receivables, net where applicable of allowance<br>for uncollectibles: |                           |                      |   |
| Property taxes, net   | 238,763                   | 238,763              | -   |
| Municipal court assessments, net                                      | 72,383                    | 72,383               | -   |
| Other   | 1,019,838                 | 1,019,838            | 1,084,225   |
| Restricted assets:  |                           |                      |   |
| Cash and cash equivalents:  |                           |                      |   |
| Library expansion   | 18,356                    | 18,356               | -   |
| Special purpose funds   | 137,409                   | 137,409              | -   |
| Refundable deposits   | 111,500                   | 111,500              | -   |
| Capital assets:   |                           |                      |   |
| Nondepreciable  | 574,548                   | 574,548              | 53,703  |
| Depreciable, net of accumulated depreciation                          | 18,120,698                | 18,120,698           | -   |
| Construction in progress  | -                         | -                    | 169,225   |
| <b>Total Assets</b>   | <u>21,428,397</u>         | <u>21,428,397</u>    | <u>1,889,384</u>  |
| <b>LIABILITIES</b>  |                           |                      |   |
| Accounts payable  | 675,983                   | 675,983              | 81  |
| Accrued salaries  | 94,558                    | 94,558               | -   |
| Accrued payroll taxes   | 12,934                    | 12,934               | -   |
| Refundable deposits   | 111,500                   | 111,500              | -   |
| Deferred revenues:  |                           |                      |   |
| PG&E Pipeline settlement  | 17,875                    | 17,875               | -   |
| Special purpose funds   | 136,861                   | 136,861              | -   |
| Other   | 14,018                    | 14,018               | -   |
| Noncurrent liabilities:   |                           |                      |   |
| Due within one year   | 128,423                   | 128,423              | -   |
| Due in more than one year   | 912,583                   | 912,583              | -   |
| <b>Total Liabilities</b>  | <u>2,104,735</u>          | <u>2,104,735</u>     | <u>81</u>   |
| <b>NET ASSETS</b>   |                           |                      |   |
| Invested in capital assets, net of related debt                       | \$ 18,383,263             | \$ 18,383,263        | \$ 222,928  |
| Restricted for:   |                           |                      |   |
| Future budget requirements  | 295,645                   | 295,645              | -   |
| Library expansion   | 18,356                    | 18,356               | -   |
| Infrastructure improvements   | -                         | -                    | 1,666,375   |
| Unrestricted  | 626,398                   | 626,398              | -   |
| <b>Total Net Assets (Deficit)</b>                                     | <u>\$ 19,323,662</u>      | <u>\$ 19,323,662</u> | <u>\$ 1,889,303</u>   |

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

| Functions/Programs  | Expenses            | Program Revenues     |                                    |                                  |
|---|---------------------|----------------------|------------------------------------|----------------------------------|
|   |                     | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary Government:</b>  |                     |                      |                                    |                                  |
| Governmental Activities:  |                     |                      |                                    |                                  |
| General government administration   | \$ 588,835          | \$ 19,650            | \$ 613                             | \$ -                             |
| Tax   | 13,300              | -                    | -                                  | -                                |
| Community services  | 276,288             | 111,912              | -                                  | -                                |
| Judicial/Police   | 2,476,600           | 223,213              | 68,621                             | 3,124                            |
| Fire Marshal  | 15,623              | -                    | -                                  | -                                |
| Public safety   | 66,459              | -                    | -                                  | -                                |
| Library   | 198,253             | 3,401                | 1,000                              | -                                |
| Streets   | 1,403,754           | 1,402                | -                                  | -                                |
| Parks   | 66,050              | -                    | -                                  | -                                |
| Community center  | 24,933              | 5,708                | -                                  | -                                |
| Interest on long term debt  | 5,182               | -                    | -                                  | -                                |
| Texas Community Development   |                     |                      |                                    |                                  |
| Block Grant (TxCDBG);<br>Disaster Recovery Grant Program;<br>Contract #GLO10-5184-000-5167-Round 1  | 333,861             | -                    | -                                  | 333,861                          |
| Texas Community Development   |                     |                      |                                    |                                  |
| Block Grant (TxCDBG);<br>Disaster Recovery Grant Program;<br>Contract #GLO12-228-000-5529-Round 2.1   | 509,402             | -                    | -                                  | 509,402                          |
| Texas Community Development   |                     |                      |                                    |                                  |
| Block Grant (TxCDBG);<br>Disaster Recovery Grant Program;<br>Contract #GLO13-078-000-7101-Round 2.2   | -                   | -                    | -                                  | -                                |
| Texas Comptroller of Public<br>Accounts (CPA); Energy<br>Efficiency & Conservation<br>Block Grant (EECBG) Program;<br>American Recovery &<br>Reinvestment Act (ARRA);<br>Contract #CS0362 |                     |                      |                                    |                                  |
|   | 6,650               | -                    | 6,650                              | 32,729                           |
| <b>Total Primary Government<br/>Governmental Activities</b>   | <b>\$ 5,985,190</b> | <b>\$ 365,286</b>    | <b>\$ 76,884</b>                   | <b>\$ 879,116</b>                |
| <b>Component Unit</b>   |                     |                      |                                    |                                  |
| Santa Fe Economic<br>Development Corporation  | \$ 769,653          | \$ -                 | \$ -                               | \$ 698,477                       |
| <b>Total Component Unit<br/>Governmental Activities</b>   | <b>\$ 769,653</b>   | <b>\$ -</b>          | <b>\$ -</b>                        | <b>\$ 698,477</b>                |

**General Revenues:**

Taxes:

Property taxes, levied for general purposes

Sales tax

Franchise tax and contract fees

Restricted interest earnings

Unrestricted interest and investment earnings

Penalties and interest on property taxes

Gain (Loss) on sale of capital assets

Other revenues

Special Item:

Contribution to a Political Subdivision - Galveston County Water

Control and Improvement District No. 8 - water and sewer

infrastructure improvements

Total general revenues and special item

Change in net assets

Net assets at beginning of year

Net assets at end of year

See accompanying notes to basic financial statements.

STATEMENT 2

| <u>Net (Expense) Revenue and Changes in Net Assets</u> |                      |                       |                  |
|--|----------------------|-----------------------|------------------|
|  |                      | <u>Component Unit</u> |                  |
| <u>Primary Government</u>                              |                      | <u>Santa Fe</u>       |                  |
| <u>Governmental</u>                                    |                      | <u>Economic</u>       |                  |
| <u>Activities</u>                                      | <u>Total</u>         | <u>Development</u>    |                  |
|  |                      | <u>Corporation</u>    |                  |
| \$ (568,572)   | \$ (568,572)         | \$ -                  | -                |
| (13,300)   | (13,300)             | -                     | -                |
| (164,376)  | (164,376)            | -                     | -                |
| (2,181,642)  | (2,181,642)          | -                     | -                |
| (15,623)   | (15,623)             | -                     | -                |
| (66,459)   | (66,459)             | -                     | -                |
| (193,852)  | (193,852)            | -                     | -                |
| (1,402,352)  | (1,402,352)          | -                     | -                |
| (66,050)   | (66,050)             | -                     | -                |
| (19,225)   | (19,225)             | -                     | -                |
| (5,182)  | (5,182)              | -                     | -                |
| -  | -                    | -                     | -                |
| -  | -                    | -                     | -                |
| -  | -                    | -                     | -                |
| <u>32,729</u>  | <u>32,729</u>        | <u>-</u>              | <u>-</u>         |
| <u>(4,663,904)</u>                                     | <u>(4,663,904)</u>   | <u>-</u>              | <u>-</u>         |
| -  | -                    | -                     | <u>(71,176)</u>  |
| -  | -                    | -                     | <u>(71,176)</u>  |
| 1,694,549  | 1,694,549            | 456,404               | -                |
| 1,369,212  | 1,369,212            | -                     | -                |
| 790,752  | 790,752              | -                     | -                |
| 18   | 18                   | -                     | -                |
| 8,608  | 8,608                | 4,521                 | -                |
| 32,989   | 32,989               | -                     | -                |
| (26,607)   | (26,607)             | -                     | -                |
| 11,405   | 11,405               | -                     | -                |
| -  | -                    | -                     | <u>(187,043)</u> |
| <u>3,880,926</u>                                       | <u>3,880,926</u>     | <u>273,882</u>        |                  |
| (782,978)  | (782,978)            | 202,706               |                  |
| <u>20,106,641</u>                                      | <u>20,106,641</u>    | <u>1,686,597</u>      |                  |
| <u>\$ 19,323,663</u>                                   | <u>\$ 19,323,663</u> | <u>\$ 1,889,303</u>   |                  |

See accompanying notes to basic financial statements.

**CITY OF SANTA FE, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2012**

|   | <u>Special Revenue Funds</u>   |                    |
|---|--|--------------------|
|   | Texas General Land<br>Office (GLO);<br>Community Development<br>Block Grant Disaster Recovery<br>Program; Contract #<br>GLO10-5184-000-5167 -<br>Round 1 |                    |
|   | <u>General Fund</u>  |                    |
| <b>ASSETS</b>   |  |                    |
| Cash and cash equivalents   | \$ 942,210   | \$ -               |
| Investments:  |  |                    |
| Tex Pool  | 5,050  | -                  |
| Logic   | 187,642  | -                  |
| Receivables, net where applicable of allowance<br>for uncollectibles: |  |                    |
| Property taxes, net   | 238,763  | -                  |
| Municipal court assessments, net                                      | 72,383   | -                  |
| Due from other governments  | 161,871  | -                  |
| Other   | 411,640  | -                  |
| Restricted assets:  |  |                    |
| Cash and cash equivalents:  |  |                    |
| Library expansion   | 18,356   | -                  |
| Special purpose funds   | 137,409  | -                  |
| Refundable deposits   | 111,500  | -                  |
| <b>Total Assets</b>   | <b><u>\$ 2,286,824</u></b>   | <b><u>\$ -</u></b> |
| <b>LIABILITIES AND FUND BALANCES</b>                                  |  |                    |
| <b>Liabilities</b>  |  |                    |
| Accounts payable  | \$ 229,655   | \$ -               |
| Accrued salaries  | 94,558   | -                  |
| Accrued payroll taxes   | 12,934   | -                  |
| Refundable deposits   | 111,500  | -                  |
| Deferred revenues:  |  |                    |
| Property taxes  | 227,851  | -                  |
| Municipal court assessments   | 59,267   | -                  |
| PG&E Pipeline settlement  | 17,875   | -                  |
| Special purpose funds   | 136,861  | -                  |
| Other   | 14,018   | -                  |
| <b>Total liabilities</b>  | <b><u>904,519</u></b>  | <b><u>-</u></b>    |
| <b>Fund Balances</b>  |  |                    |
| Restricted for:   |  |                    |
| Library expansion   | 18,356   | -                  |
| Assigned to:  |  |                    |
| Future budget requirements  | 295,645  | -                  |
| Unassigned  | 1,068,304  | -                  |
| <b>Total fund balances</b>  | <b><u>1,382,305</u></b>  | <b><u>-</u></b>    |
| <b>Total Liabilities and Fund Balances</b>                            | <b><u>\$ 2,286,824</u></b>   | <b><u>\$ -</u></b> |

See accompanying notes to basic financial statements.

STATEMENT 3

Special Revenue Funds

| Texas General Land<br>Office (GLO);<br>Community Development<br>Block Grant Disaster Recovery<br>Program; Contract #<br>GLO12-228-000-5529 -<br>Round 2.1 | Texas General Land<br>Office (GLO);<br>Community Development<br>Block Grant Disaster Recovery<br>Program; Contract #<br>GLO13-078-000-7101 -<br>Round 2.2 | Texas Comptroller of Public<br>Accounts (CPA); State<br>Energy Conservation Office<br>(SECO); Energy Efficiency &<br>Conservation Block Grant (EECBG)<br>Program; American Recovery &<br>Reinvestment Act (ARRA);<br>Contract #CS0362 | Total<br>Governmental<br>Funds |
|---|---|---|--------------------------------|
| \$ -  | \$ -  | \$ -  | \$ 942,210                     |
| -   | -   | -   | 5,050                          |
| -   | -   | -   | 187,642                        |
| -   | -   | -   | 238,763                        |
| -   | -   | -   | 72,383                         |
| 446,328   | -   | -   | 608,199                        |
| -   | -   | -   | 411,640                        |
| -   | -   | -   | 18,356                         |
| -   | -   | -   | 137,409                        |
| -   | -   | -   | 111,500                        |
| <u>\$ 446,328</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ 2,733,152</u>            |
| \$ 446,328  | \$ -  | \$ -  | \$ 675,983                     |
| -   | -   | -   | 94,558                         |
| -   | -   | -   | 12,934                         |
| -   | -   | -   | 111,500                        |
| -   | -   | -   | 227,851                        |
| -   | -   | -   | 59,267                         |
| -   | -   | -   | 17,875                         |
| -   | -   | -   | 136,861                        |
| -   | -   | -   | 14,018                         |
| <u>446,328</u>  | <u>-</u>  | <u>-</u>  | <u>1,350,847</u>               |
| -   | -   | -   | 18,356                         |
| -   | -   | -   | 295,645                        |
| -   | -   | -   | 1,068,304                      |
| -   | -   | -   | 1,382,305                      |
| <u>\$ 446,328</u>   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ 2,733,152</u>            |

See accompanying notes to basic financial statements.

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**CITY OF SANTA FE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2012**

**STATEMENT 4**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 1,382,305

Amounts reported for governmental activities in the Statement of Net Assets (Statement 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds balance sheet.

|                                |                     |            |
|--------------------------------|---------------------|------------|
| Capital assets                 | \$ 34,802,883       |            |
| Less: Accumulated depreciation | <u>(16,107,637)</u> | 18,695,246 |

Deferred property taxes and municipal court assessments earned and accrued in the current period but not received after 60 days is deferred in the fund statements but recognized under full accrual for governmental activities.

287,117

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

|                              |                |                    |
|------------------------------|----------------|--------------------|
| Capital leases payable       | 311,983        |                    |
| Compensated absences payable | 608,794        |                    |
| Net pension obligation       | <u>120,229</u> | <u>(1,041,006)</u> |

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**  
**IN THE STATEMENT OF NET ASSETS**

**\$ 19,323,662**

**CITY OF SANTA FE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

|  | <u>Special Revenue Funds</u> |   |  |
|--|------------------------------|---|--|
|  | <u>General Fund</u>          | <u>Texas General<br/>Land Office<br/>(GLO); Community<br/>Development Block Grant -<br/>Disater Recovery Program;<br/>Contract #<br/>GLO10-5184-000-5167-<br/>Round 1</u> | <u>Texas General<br/>Land Office<br/>(GLO); Community<br/>Development Block Grant -<br/>Disater Recovery Program;<br/>Contract #<br/>GLO12-228-000-5529-<br/>Round 2.1</u> |
| <b>Revenues</b>                        |                              |   |  |
| Taxes:                                 |                              |   |  |
| Property                               | \$ 1,687,561                 | \$ -  | \$ -   |
| Franchise and contract fees            | 797,726                      | -   | -  |
| Sales tax                              | 912,808                      | -   | -  |
| Sales tax - property tax reduction     | 456,404                      | -   | -  |
| Licenses and permits                   | 111,912                      | -   | -  |
| Municipal fines and cash bond forfeits | 222,918                      | -   | -  |
| Intergovernmental revenues             | 69,617                       | 333,861   | 509,402  |
| Interest income                        | 8,627                        | -   | -  |
| Penalty and interest, property taxes   | 27,949                       | -   | -  |
| Other revenues                         | 39,525                       | -   | -  |
| <b>Total revenues</b>                  | <b>4,335,047</b>             | <b>333,861</b>  | <b>509,402</b>   |
| <b>Expenditures</b>                    |                              |   |  |
| Current:                               |                              |   |  |
| General government administration      | 577,351                      | -   | -  |
| Tax                                    | 13,301                       | -   | -  |
| Community services                     | 268,804                      | -   | -  |
| Judicial/Police                        | 2,310,408                    | -   | -  |
| Fire Marshal                           | 13,198                       | -   | -  |
| Public Safety                          | 66,459                       | -   | -  |
| Library                                | 185,792                      | -   | -  |
| Streets                                | 614,744                      | -   | -  |
| Parks                                  | 56,735                       | -   | -  |
| Community center                       | 17,829                       | -   | -  |
| Capital expenditures                   | 377,793                      | -   | -  |
| Debt service:                          |                              |   |  |
| Principal retirement                   | 189,118                      | -   | -  |
| Interest                               | 5,182                        | -   | -  |

See accompanying notes to basic financial statements.

STATEMENT 5

**Special Revenue Funds**

| Texas General<br>Land Office<br>(GLO); Community<br>Development Block Grant -<br>Disaster Recovery Program;<br>Contract #<br>GLO13-078-000-7101-<br>Round 2.2 | Texas Comptroller of Public<br>Accounts (CPA); State<br>Energy Conservation Office<br>(SECO); Energy Efficiency &<br>Conservation Block Grant (EECBG)<br>Program; American Recovery &<br>Reinvestment Act (ARRA);<br>Contract #CS0362 | Total<br>Governmental<br>Funds |
|---|---|--------------------------------|
| \$ -  | \$ -  | \$ 1,687,561                   |
| -   | -   | 797,726                        |
| -   | -   | 912,808                        |
| -   | -   | 456,404                        |
| -   | -   | 111,912                        |
| -   | -   | 222,918                        |
| -   | 39,379  | 952,259                        |
| -   | -   | 8,627                          |
| -   | -   | 27,949                         |
| -   | -   | 39,525                         |
| -   | 39,379  | 5,217,689                      |
| -   | -   | 577,351                        |
| -   | -   | 13,301                         |
| -   | -   | 268,804                        |
| -   | -   | 2,310,408                      |
| -   | -   | 13,198                         |
| -   | -   | 66,459                         |
| -   | -   | 185,792                        |
| -   | -   | 614,744                        |
| -   | -   | 56,735                         |
| -   | -   | 17,829                         |
| -   | -   | 377,793                        |
| -   | -   | 189,118                        |
| -   | -   | 5,182                          |

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

|   | <u>Special Revenue Funds</u> |   |  |
|---|------------------------------|---|--|
|   | <u>General Fund</u>          | <u>Texas General<br/>Land Office<br/>(GLO); Community<br/>Development Block Grant -<br/>Disater Recovery Program;<br/>Contract #<br/>GLO10-5184-000-5167-<br/>Round 1</u> | <u>Texas General<br/>Land Office<br/>(GLO); Community<br/>Development Block Grant -<br/>Disater Recovery Program;<br/>Contract #<br/>GLO12-228-000-5529-<br/>Round 2.1</u> |
| Texas General Land Office (GLO);<br>Community Development Block Grant -<br>Disaster Recovery Program;<br>Contract #GLO10-5184-000-5167 - Round 1                                    |                              |   |  |
| Water facilities  | \$ -                         | \$ 250,733  | \$ -   |
| Sewer facilities  | -                            | -   | -  |
| Engineering   | -                            | 71,468  | -  |
| Planning/Project delivery   | -                            | 11,660  | -  |
| Texas General Land Office (GLO);<br>Community Development Block Grant -<br>Disaster Recovery Program;<br>Contract #GLO12-228-000-5529 - Round 2.1                                   |                              |   |  |
| Sewer facilities  | -                            | -   | 449,727  |
| Engineering/Architectural Services  | -                            | -   | 38,939   |
| Planning/Project delivery   | -                            | -   | 20,736   |
| Texas General Land Office (GLO);<br>Community Development Block Grant -<br>Disaster Recovery Program;<br>Contract #GLO13-078-000-7101 -Round 2.2                                    |                              |   |  |
| Water facilities  | -                            | -   | -  |
| Sewer facilities  | -                            | -   | -  |
| Engineering/Architectural Services  | -                            | -   | -  |
| Project delivery  | -                            | -   | -  |
| Environmental   | -                            | -   | -  |
| Texas Comptroller of Public Accounts<br>(CPA); Energy Efficiency & Conservation<br>Block Grant (EECBG) Program; American<br>Recovery & Reinvestment Act (ARRA);<br>Contract #CS0362 |                              |   |  |
| Administration/Consultant<br>Subcontractor  | -                            | -   | -  |
|   | -                            | -   | -  |
| Total expenditures  | <u>4,696,714</u>             | <u>333,861</u>  | <u>509,402</u>   |
| <b>Excess (deficiency) of revenues<br/>over (under) expenditures</b>  | <u>(361,667)</u>             | <u>-</u>  | <u>-</u>   |

See accompanying notes to basic financial statements.

STATEMENT 5

Special Revenue Funds

| Texas General<br>Land Office<br>(GLO); Community<br>Development Block Grant -<br>Disaster Recovery Program;<br>Contract #<br>GLO13-078-000-7101-<br>Round 2.2 | Texas Comptroller of Public<br>Accounts (CPA); State<br>Energy Conservation Office<br>(SECO); Energy Efficiency &<br>Conservation Block Grant (EECBG)<br>Program; American Recovery &<br>Reinvestment Act (ARRA);<br>Contract #CS0362 | Total<br>Governmental<br>Funds |
|---|---|--------------------------------|
| \$  | -   | \$ 250,733                     |
|   | -   | -                              |
|   | -   | 71,468                         |
|   | -   | 11,660                         |
|   | -   | 449,727                        |
|   | -   | 38,939                         |
|   | -   | 20,736                         |
|   | -   | -                              |
|   | -   | -                              |
|   | -   | -                              |
|   | -   | -                              |
|   | -   | -                              |
| -   | -   | -                              |
| -   | 39,379  | 39,379                         |
| -   | 39,379  | 5,579,356                      |
| -   | -   | (361,667)                      |

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

|   | <u>Special Revenue Funds</u> |   |  |
|---|------------------------------|---|--|
|   | <u>General Fund</u>          | <u>Texas General<br/>Land Office<br/>(GLO); Community<br/>Development Block Grant -<br/>Disater Recovery Program;<br/>Contract #<br/>GLO10-5184-000-5167-<br/>Round 1</u> | <u>Texas General<br/>Land Office<br/>(GLO); Community<br/>Development Block Grant -<br/>Disater Recovery Program;<br/>Contract #<br/>GLO12-228-000-5529-<br/>Round 2.1</u> |
| <b>Other Financing Sources (Uses):</b>      |                              |   |  |
| Transfer in                                 | \$ -                         | \$ -  | \$ -   |
| Transfer out                                | -                            | -   | -  |
| Proceeds from sale of capital assets        | 16,552                       | -   | -  |
| Capital lease contracts                     | 205,355                      | -   | -  |
| <b>Total other financing sources (uses)</b> | <u>221,907</u>               | -   | -  |
| <b>Net change in fund balances</b>          | (139,760)                    | -   | -  |
| <b>Fund balances at beginning of year</b>   | <u>1,522,065</u>             | -   | -  |
| <b>Fund balances at end of year</b>         | <u>\$ 1,382,305</u>          | <u>\$ -</u>   | <u>\$ -</u>  |

See accompanying notes to basic financial statements.

STATEMENT 5

**Special Revenue Funds**

| Texas General<br>Land Office<br>(GLO); Community<br>Development Block Grant -<br>Disaster Recovery Program;<br>Contract #<br>GLO13-078-000-7101-<br>Round 2.2 | Texas Comptroller of Public<br>Accounts (CPA); State<br>Energy Conservation Office<br>(SECO); Energy Efficiency &<br>Conservation Block Grant (EECBG)<br>Program; American Recovery &<br>Reinvestment Act (ARRA);<br>Contract #CS0362 | Total<br>Governmental<br>Funds |
|---|---|--------------------------------|
| \$ -  | \$ -  | \$ -                           |
| -   | -   | -                              |
| -   | -   | 16,552                         |
| -   | -   | 205,355                        |
| -   | -   | 221,907                        |
| -   | -   | (139,760)                      |
| -   | -   | 1,522,065                      |
| <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ 1,382,305</u>            |

**CITY OF SANTA FE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

STATEMENT 6

**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (139,760)

Amounts reported for governmental activities in the Statement of Activities  
(Statement 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities the cost of those assets is allocated over their  
estimated useful lives and reported as depreciation expense.

|                              |                  |           |
|------------------------------|------------------|-----------|
| Add: Capital outlay          | \$ 410,522       |           |
| Deduct: Depreciation expense | <u>(939,631)</u> | (529,109) |

Because some revenues will not be collected for several months after the City's  
fiscal year end, they are not considered "available" revenues and are deferred in  
the governmental funds. Deferred revenues increased (decreased) by these  
amounts this year:

|                             |              |        |
|-----------------------------|--------------|--------|
| Property taxes              | 12,029       |        |
| Municipal court assessments | <u>(899)</u> | 11,130 |

Governmental funds report the issuance of debt as an "other financing source." In  
the governmental activities, however, the issuance of debt is reflected as a  
liability instead. (205,355)

Repayment of capital lease principal is an expenditure in the governmental  
funds, but it reduces long-term liabilities in the Statement of Net Assets  
and does not affect the Statement of Activities. 189,118

Certain expenses reported in the Statement of Activities do not require the use  
of current financial resources and, therefore, are not reported as expenditures  
in governmental funds.

|                        |                |          |
|------------------------|----------------|----------|
| Compensated absences   | (56,960)       |          |
| Net pension obligation | <u>(8,883)</u> | (65,843) |

The Statement of Activities reports a gain or loss on sale of capital assets  
based on the proceeds received and the net book value of the assets at the  
time of sale. The loss on disposal is calculated as follows:

|   |                |                 |
|---|----------------|-----------------|
| Cost of assets disposed                     | (150,616)      |                 |
| Accumulated depreciation of assets disposed | <u>107,457</u> | <u>(43,159)</u> |

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (782,978)

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Santa Fe, Texas was incorporated by virtue of an election held before the town of Santa Fe residents on January 21, 1978. County Judge Ray Holbrook then declared the City of Santa Fe duly incorporated for municipal purposes. The City operates under a council-manager form of government and provides the services specifically authorized by its charter.

The financial statements of the City of Santa Fe, Texas have been prepared in accordance with generally accepted accounting principles accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. 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. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

**A. Reporting Entity**

In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City’s financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. The City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Based on the aforementioned criteria, the City of Santa Fe Section 4B Economic Development Corporation is the only component unit that should be included in the City’s basic financial statements. The Corporation will be discretely presented and the financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit. Note disclosure related to the discretely presented component unit is presented as Note 11 of the Notes to Basic Financial Statements. The discretely presented component unit has a September 30 year end and only has governmental activities.

*Discretely Presented Component Unit* – The City of Santa Fe Section 4B Economic Development Corporation was organized for the purpose of aiding, assisting and acting on behalf of the City of Santa Fe to promote and develop economic development projects designed to promote new and expanded business enterprises. The members of the Corporation’s governing board as well as its operational and capital budgets are approved by City Council. The operations of the Corporation are governmental in nature.

The Corporation issues separately audited financial statements and copies of the reports and statements can be obtained at the following address:

City of Santa Fe Section 4B Economic Development Corporation  
12002 Highway 6  
P.O. Box 950  
Santa Fe, Texas 77510

## B. Basic Financial Statements

### General

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (focusing on the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's judicial and police protection, parks, library, streets, public safety, community center, community services, special projects, and general administrative services are classified as governmental activities. The City of Santa Fe does not operate any business-type activities.

### Government-Wide Statements:

In the government-wide Statement of Net Assets information is reported on all the non-fiduciary activities of the primary government and its legally separate component unit. For the most part, the effect of interfund activity has been removed from this statement. The statement of net assets presents the governmental activities in a column on a consolidated basis and a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities also reports on all the non-fiduciary activities of the primary government and its legally separate component unit. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. The City does not allocate indirect costs. 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.

### Fund Financial Statements:

Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-wide financial statements. The City has presented all major funds that meet the qualifications of GASB Statement No. 34. In addition, the City has also presented all special revenue funds as major funds because the City believes the financial position and activities of these funds is significant since they are funded by federal grant money. The City will report the General Fund and the Special Revenue Funds as major funds, no non-major funds exist to be aggregated into a single column called "Other 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*. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred; regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met.

Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities, and fund balances are generally included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough

CITY OF SANTA FE, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
SEPTEMBER 30, 2012

thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. The City records property tax revenues and municipal court fines on the cash basis until year end, at which time receipts received within sixty days of year end are accrued and the remaining amount deferred until they become available. Sales taxes, which are subsequently remitted to the City, are recognized as revenues and receivables when collected by the authorized agents. Franchise tax revenue is also recognized by the City as revenue in the year it is measurable and available. Licenses and permit fees, fines and forfeits, and miscellaneous other revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. For intergovernmental revenues related to expenditure – driven grants, revenues are recognized when the expenditure is made. Revenues from general purpose grants are recognized in the period to which the grant applies. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payments are due. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

*Deferred Revenue* is reported when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the government has legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The funds of the financial reporting entity are described below:

**Governmental Funds:**

The focus of the governmental funds’ measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

**General Fund** – the general fund is the primary operating fund of the City and is always classified as a major fund. It accounts for all financial resources and transactions not required to be accounted for in another fund.

**Special Revenue Fund** – special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes. All special revenue funds of the City are classified as major funds.

*Community Development Block Grant – Disaster Recovery Grant Program – Contract #GLO10-5184-000-5167 – Round 1* – this special revenue fund is used to facilitate disaster relief, recovery, restoring and economic revitalization in areas affected by Hurricane Ike. These funds will be used to purchase and install water storage facilities and replace sewage infrastructure.

*Community Development Block Grant – Disaster Recovery Grant Program – Contract #GLO12-228-000-5529 – Round 2.1* – this special revenue fund will be used to facilitate disaster relief, recovery, restoring and economic revitalization in areas affected by Hurricane Ike. The funds will be used to construct, or cause to be constructed, improvements to the public sewer facilities and its components.

*Community Development Block Grant – Disaster Recovery Grant Program – Contract #GLO13-078-000-7101 – Round 2.2* – this special revenue fund will also be used to facilitate disaster relief, recovery, restoring and economic revitalization in areas affected by Hurricane Ike. The funds will purchase and install a new ground storage tank at an existing plant and sewer line rehabilitation in various approved locations.

*State Energy Conservation Office (SECO), Energy Efficiency and Conservation Block Grant (EECBG) Program – allocated under the American Recovery and Reinvestment Act (ARRA) – Contract #CS0362* – this special revenue fund will retrofit City facilities by purchasing and

**CITY OF SANTA FE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2012**

installing energy efficient HVAC systems, including necessary updates to ducts, insulation, dampers, and air registers, and replace inefficient lighting fixtures throughout city hall.

**D. Cash and Cash Equivalents**

The City of Santa Fe’s cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit. No more than 20% of the portfolio may be invested for a period greater than one year and no portion of a portfolio may be invested for a period greater than two years.

**E. Investments**

The investment policy of the City of Santa Fe sets forth specific investment guidelines to insure safety, liquidity, diversification, yield, and public trust. The investments authorized by the policy, which is guided by state law, generally include: obligations of the United States of American or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; fully collateralized certificate of deposits; and other obligations, in which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States of America or their respective agencies and instrumentalities. The City of Santa Fe has also adopted a resolution and a participation agreement that authorizes participation in investment pools.

Investments for the City are reported at fair value and are in compliance with the City investment policy and state statutes governing investments. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**F. Receivables**

Receivables at September 30, 2012 for the City’s government-wide and governmental fund financial statements, including the applicable allowances for uncollectible amounts, consist of the following:

|   | <u>Receivables</u>  | <u>Less: Allowance<br/>for Uncollectibles</u> | <u>Receivables - Net of Allowance<br/>for Uncollectibles</u> |
|---|---------------------|---|--|
| Property taxes  | \$ 174,063          | \$ 27,589                                     | \$ 146,474   |
| Property taxes - penalty and interest                   | 124,248             | 31,959  | 92,289   |
| Municipal court assessments                             | 723,834             | 651,451                                       | 72,383   |
| Due from other governments -<br>specific program grants | 608,199             | -   | 608,199  |
| Other:  |                     |   |  |
| Franchise and contract fees                             | 75,347              | -   | 75,347   |
| Sales tax   | 325,455             | -   | 325,455  |
| Miscellaneous   | 10,838              | -   | 10,838   |
|   | <u>2,041,984</u>    | <u>710,999</u>                                | <u>1,330,985</u>   |
| Total   | <u>\$ 2,041,984</u> | <u>\$ 710,999</u>                             | <u>\$ 1,330,985</u>  |

**G. Restricted Assets – Cash**

Certain cash and investments are segregated from operating cash due to certain internal and external restrictions. Contributions received for the Mae S. Bruce Library expansion have been restricted by the donors. Other revenues (special purpose funds and refundable deposits) are restricted to satisfy applicable legal and contractual provisions.

**CITY OF SANTA FE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2012**

**H. Capital Assets**

Under GASB Statement No. 34, all capital assets whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation is shown in the governmental funds financial statements.

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, drainage systems and similar items) are reported at cost or estimated historical cost, including all ancillary charges necessary to place the asset in its intended location and condition for use. Donated capital assets are reported at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest costs related to a capital asset or incurred during the construction phase of a capital asset is expensed and not capitalized. Capital assets are defined for financial statement purposes as assets with an estimated economic useful life in excess of one year and meet specific capitalization thresholds. They are depreciated using the straight line method of depreciation. The following represents the useful life and capitalization threshold of the City's capital assets:

| <u>Asset Type</u>                  | <u>Useful Life</u>                | <u>Capitalization Threshold</u>       |
|------------------------------------|-----------------------------------|---------------------------------------|
| Land                               | Inexhaustible and non-depreciable | All land, regardless of cost or value |
| Buildings                          | 40 years                          | \$25,000                              |
| Building Improvements              | 15 years                          | \$25,000                              |
| Improvements, Other Than Buildings | 15 years                          | \$20,000                              |
| Infrastructure                     | 60 years                          | \$100,000                             |
| Infrastructure Improvements        | 15 years                          | \$100,000                             |
| Computers and Computer Equipment   | 5 years                           | \$1,000                               |
| Equipment                          | 10 years                          | \$2,500                               |
| Furniture                          | 10 years                          | \$1,000                               |
| Radios and Communication Equipment | 10 years                          | \$1,000                               |
| Vehicles                           | 10 years                          | \$2,500                               |
| Library Books and Materials        | 10 years                          | \$10,000                              |

**I. Accounts Payable**

Accounts payable at September 30, 2012 in the government-wide and governmental fund financial statements are 24% vendors, 66% specific program grants, 6% employer and employee retirement contributions, and 4% municipal court state costs collected and due to the State Treasurer.

**J. Interfund Receivables, Payables, and Transfers**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet when they are expected to be liquidated within one year. If the receivable or payable is expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds". Interfund transfers are used to (1) move revenues from the fund that statute or budget requires receive the revenues to the fund that statute or budget requires expend them, or (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**K. Compensated Absences**

Annual vacation leave, according to a graduated scale based on years of employment, or Section 143.046 of the Texas Local Government Code for collective bargaining personnel, is credited to employees on a pro-rata basis at the beginning of

CITY OF SANTA FE, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
SEPTEMBER 30, 2012

each month. While it is the intent of the City that all earned vacation will be taken by the employee within the twelve month period of the employee's anniversary date, unused vacation hours can be deferred beyond the twelve month period subject to approval by appropriate management. Earned but unused vacation is normally paid to the employee in cases of resignation, retirement, or death.

Sick leave benefits are also provided to all eligible, regular employees at a rate of eight hours per month of service, or ninety six hours per year, for employees not covered by collective bargaining. Collective bargaining employees accumulate sick leave in accordance with the provisions of Section 143.045 of the Texas Local Government Code. Eligible part-time employees accrue sick leave benefits at one-half the rate of full time employees. Unused sick leave benefits are allowed to accumulate to a maximum of 180 days; however, collective bargaining employees may accumulate sick leave without limit. Upon termination of an employee in good standing, the payment of accrued sick leave benefits may be authorized up to one-third of the lesser of (a) the accumulated, unused sick leave, or (b) ninety days. Collective bargaining employees who leave service for any reason are entitled to a lump-sum payment of the lesser of the accrued sick leave benefits or ninety days. The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash in accordance with the Act.

For the governmental funds, accumulated compensated absences are normally paid from the general fund and are treated as expenditures when paid. All compensated absences are accrued when incurred in the government-wide financial statements. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### L. Long-Term Obligations

All long-term obligations of the City of Santa Fe relate directly to governmental fund activities. The City has no proprietary fund operations or business-type resources.

In the government-wide financial statements, all long-term debt to be repaid from governmental resources is reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statements, long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

#### M. Equity Classifications

In the government-wide financial statements, net assets are classified in the following categories:

- *Invested in capital assets, net of related debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- *Restricted net assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents the net assets of the City, which are not restricted for any project or other purpose. A deficit will require future funding.

In the Fund Financial Statements, beginning with the 2010-11 fiscal year, the City implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable Fund Balance* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid amounts, or (b) legally or contractually required to be maintained intact.

- *Restricted Fund Balance* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – Committed fund balance includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes the constraints by taking the same type of formal action that imposed the restraints originally (e.g., resolution, ordinance).
- *Assigned Fund Balance* – Assigned fund balances are amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Decisions with regard to these amounts do not have to be made at the highest decision-making level. They may be made by a committee or other government official to which the City Council delegates the authority. The constraints imposed by an assignment are more easily imposed and removed.
- *Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund. This represents General Fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund. These are amounts not previously included in the other categories which are technically available for any purpose and represent resources that are available for additional appropriation. Positive amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred in unrestricted fund balances in which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

#### N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

#### NOTE 2 – DEPOSITS AND INVESTMENTS

##### Policy

The City’s Investment Policy specifies that depository services must be approved by City Council. The City Manager and City Secretary/Treasurer are designated as investment officers of the City and are responsible for investment decisions and activities. All deposits and investments of City funds shall be secured by pledged collateral. The collateralization level will be 102 per cent of market value of principal and accrued interest on the deposits or investments less an amount insured by FDIC. In accordance with its investment policy, the City manages its exposure to declines in fair market values by not investing more than 20% of the portfolio for a period greater than one year and no portion of a portfolio may be invested for a period greater than two years. As of September 30, 2012, all of the City’s investments were invested for a period of one year or less. It is the City’s policy to limit its investments to investment types with an investment quality rating not less than AAA by a nationally recognized rating agency. Investment pools must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. The investments of the City are in compliance with the Council’s investment policy. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments and deposits were complied with during the year. Investments at year end are representative of the types of investments maintained by the City during the year.

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**Deposits**

Deposits were with the contracted depository bank in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and pledged by U. S. Government securities. The pledge agreement requires that the City have a first and prior lien on the securities to the extent of its funds on deposit and that none of the securities can be pledged or subjected to any lien other than that of the City. The City's deposits are categorized below to indicate the level of risk assumed by the City as of September 30, 2012:

1. Insured or collateralized with securities held by the City or by its agent in the City's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
3. Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the City's name.

For deposits, *custodial credit risks* is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of City cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the financial institutions holding the assets. The City's deposits at September 30, 2012, were secured by depository insurance or by collateral held by a third-party custodian in the City's name, and therefore were not exposed to custodial credit risk.

At year-end, the City's carrying amount of deposits was \$1,209,075 and the bank balance was \$1,432,855. Of this bank balance, \$250,000 is covered by federal depository insurance. The remaining balance \$1,182,855 was collateralized with securities held by the pledging financial institution or by its trust department or agent in the City's name (Risk Category 1).

At year end, the carry value of cash and cash equivalents (which approximated fair value) consisted of:

|  | <b>Carrying Amount</b> |
|--|------------------------|
| Demand and time deposits                   | \$ 1,209,075           |
| Petty Cash                                 | 400                    |
| Total cash and cash equivalents            | 1,209,475              |
| Less: restricted cash and cash equivalents | (267,265)              |
| Unrestricted cash and cash equivalents     | \$ 942,210             |

**Investments**

*TexPool* – The City is a participant in a Texas Local Government Investment Pool (*TexPool*), an external investment pool, that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two Acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller of Public Accounts exercises oversight responsibility over *TexPool*. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in *TexPool* and other persons who do not have a business relationship with *TexPool*. The Advisory Board members review the investment policy and management fee structure. Finally, *TexPool* is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review. In addition to its annual review by an independent auditor, *TexPool* is subject to review by the State Auditor and the Internal Auditor of the Comptroller's Office. Results of these annual reviews may be obtained from *TexPool* Participant Services, c/o Federated Investors, Inc., 1001 Texas Avenue, Suite 1400, Houston, Texas 77002.

CITY OF SANTA FE, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
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SEPTEMBER 30, 2012

The City of Santa Fe had \$5,050 invested in TexPool as of September 30, 2012, at a 0.11% average annual rate of return, TexPool's administrative and investment services are provided by Federated Investors, Inc., and the assets are safe kept in a separate custodial account at State Street Bank and Trust in the name of TexPool. Its portfolio is made up of the following:

1. Obligations of the United States Government, its agencies and instrumentalities with a maximum final maturity of 397 days for fixed rate securities and 24 months for variable rate notes.
2. Fully collateralized repurchase agreements and reverse repurchase agreements (a) with a defined termination dates, (b) secured by obligations of the United States, its agencies, or its instrumentalities, including certain mortgage – backed securities, (c) that require purchased securities to be pledged to the investing entity, in the entity's name, and deposited at the time of investment with the investing entity or a third party, and (d) that are placed through primary government securities dealers, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas. The term of a reverse repurchase agreement may not exceed 90 days after the date of delivery. The maximum maturity on repurchase agreements may not exceed 181 days.
3. No-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. The money market mutual fund must maintain a dollar-weighted average stated maturity of 90 days or less and include in its investment objectives the maintenance of a stable net asset value of \$1.00.
4. Securities lending program that comply with various limitations.

TexPool will not invest in derivatives, commercial paper, or certificates of deposit.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. These TexPool balances are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by credit risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

*Credit risk* is the risk that an issuer or counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies, and instrumentalities; repurchase agreements; no-load AAAM money market mutual funds registered with the Securities and Exchange Commission, and securities lending programs. The TexPool portfolio is designed and managed to ensure it maintains its AAAM rating (or equivalent) by a nationally recognized rating agency.

*Custodial credit risk* is the risk that, in the event of the failure of the counterparty, TexPool would not be able to recover the loss of its investments or collateral securities that are in the possession of an outside entity. To minimize custodial credit risk, all of TexPool's investments are held by the Federal Reserve or the custodian in TexPool's name. TexPool's bank balances are fully collateralized by Federal depository insurance or collateralized by the institution holding the funds.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the value of an investment. TexPool's portfolio has low interest rate risk due to restrictions on weighted average maturity and maximum maturity of any one investment. TexPool's investment manager will maintain the weighted average maturity of the portfolio at sixty (60) days or less, no fixed rate security will exceed 397 days in maturity, and no variable rate note will exceed 24 months in maturity. The investment manager is required to maintain a stable \$1.00 price per unit (net asset value), however, the \$1.00 price is not guaranteed or insured by the State of Texas. Immediate action must be taken if the net asset value of the portfolio falls below \$0.995 or rises above \$1.005. These limitations are designed to minimize interest rate risk.

*LOGIC* – The City is a participant in a Local Government Investment Cooperative (LOGIC) that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public

**CITY OF SANTA FE, TEXAS**  
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**(CONTINUED)**  
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Funds Investment Act, Chapter 2256 of the Texas Government Code. The Cooperative's governing body is a five-member board of directors comprised of individuals who are employees, officers, or elected officials of Participants in the Cooperative or who do not have a business relationship with the Cooperative and are qualified to advise. The Logic bylaws also permit a maximum of two advisory directors to serve in a non-voting advisory capacity. These advisory directors shall be employees or members of the firms providing managerial services to Logic. The Cooperative offers various investment alternatives for Texas Government Entities. Currently, the Board has authorized one portfolio, "LOGIC I," which is available to participants. The City of Santa Fe participates in the LOGIC I Portfolio which seeks preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. In order to comply with the Public Funds Investment Act, all portfolios will maintain a AAA or equivalent rating from at least one nationally recognized rating agency. The Logic Portfolio has been assigned a rating of AAAM by Standard & Poor's. An explanation of the significance of such ratings may be obtained from Standard & Poor's, 1221 Avenue of the Americas, New York, New York 10041.

The City of Santa Fe had \$187,642 invested in LOGIC I as of September 30, 2012, at a 0.23% average annual rate of return. The LOGIC I Portfolio is comprised of the following eligible investments:

1. Obligations of the United States or its agencies and instrumentalities with a maximum final stated maturity of 397 days for fixed securities and 24 months for variable rate notes;
2. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the United States with a maximum maturity of 13 months;
3. Repurchase agreements with a defined termination date not to exceed 95 days, secured by obligations of the United States or its agencies and instrumentalities, or other obligations on which the principal and interest are unconditionally guaranteed or insured by the United States, which are collateralized fully;
4. Securities and Exchange Commission registered money market funds authorized by the Public Funds Investment Act and rated in the highest rating category by at least one nationally recognized rating agency; and
5. Commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance that is rated A-1 or P-1 or equivalent by two nationally recognized rating agencies or that is rated A-1 or P-1 or equivalent by one nationally recognized rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

The Board has entered into a contract with First Southwest Asset Management, Inc. and J.P. Morgan Investment Management, Inc. to serve as Co-Administrators of the Cooperative. Day to day administration of the Cooperative will be performed by First Southwest Asset Management, Inc. and J.P. Morgan Investment Management, Inc. First Southwest will provide administrative, participant support, and marketing services. J.P. Morgan Investment Management, Inc. or its affiliates will provide investment management, custody, fund accounting, and transfer agency services. J.P. Morgan Chase Bank, N.A. is the custodian for the Cooperative.

The financial statements of the Cooperative are examined and a certification issued by an independent certified public accounting firm. An Annual Report including the auditor's opinion is issued as of the close of the Cooperative's fiscal year, which ends August 31. Results of the annual report, investment policies, and an information statement can be obtained from LOGIC Participant Services, 325 North St. Paul Street, Suite 800, Dallas, Texas 75201.

LOGIC I is deemed a "2a7-like Pool" under Governmental Accounting Standards Statement No. 31. The Cooperative will operate the portfolio in a manner consistent with Rule 2a7 in all respects. This rule provides an exception to the fair value reporting for investments. Approved investments are carried at cost, which approximates market and may be liquidated as needed. These investments are not subject to credit risk categorization since the Council is not issued securities, but rather owns an undivided beneficial interest in the securities of the Portfolio. The Portfolio is not secured by an insurance policy, federal deposit insurance, or other secondary guarantee and is subject to investment risk, including possible loss of principal amount invested.

**CITY OF SANTA FE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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*Credit risk* is the possibility that the issuer of a bond or other security will fail to make timely payments of interest or principal. Logic I Portfolio will invest in obligations of the United States, its agencies or instrumentalities, and other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the United States. The portfolio may invest in obligations that offer more varied credit risk but only upon being satisfied that the credit risk is minimal.

*Interest rate risk* is the potential for a decline in market value due to rising interest rates. The Logic I Portfolio presents little interest rate risk. The dollar-weighted average maturity of the portfolio is 60 days or less (or fewer days, if required to maintain its rating) and the maximum final stated maturity of the portfolio will not exceed 90 days. The portfolio's maximum final stated maturity is 397 days for fixed rate securities and 24 months for variable rate securities. The Board has determined, in good faith, that it is in the best interest of the portfolio to maintain a stable net asset value of \$1.00 per unit. Investments in the portfolio are neither insured nor guaranteed by the U.S. Government and there can be no assurance that the portfolio will maintain a stable net asset value of \$1.00. Policies have been established to stabilize, to the extent reasonably possible, the net asset value per unit of \$1.00.

*Concentration of credit risk* is the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specified issuer. The investment policy requires diversification by security type and institution, but does not place a fixed percentage limit for any other instrument. At September 30, 2012, the City had no concentration of credit risk.

**NOTE 3 – PROPERTY TAXES**

Property taxes are levied annually in October on the assessed (appraised) taxable valuation of property located within the City as of the preceding January 1. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraised values are established by the Galveston County Appraisal District at 100% of estimated fair market value. The County of Galveston bills and collects the property taxes and remits to the City its portion. The City's property tax calendar is as follows:

|            |  |
|------------|--|
| October    | Taxes are levied and are due upon receipt of the tax bill  |
| January 1  | Tax lien attaches to properties within City  |
| February 1 | Penalty and interest charged if taxes are not paid   |
| July 1     | Additional 20% penalty is charged if taxes are not paid; penalty is payable to the delinquent tax attorney |

Property taxes represent a non-exchange transaction, in which the City receives value without directly giving equal value in return. In the government-wide financial statements, property taxes are recorded on the accrual basis, in which revenue is recognized in the fiscal year for which the taxes are levied. In the fund financial statements property taxes are recognized on the modified accrual basis of accounting. This basis of accounting requires that the taxes be both measurable and available to finance current year expenditures. Therefore, the taxes are recorded as revenue in the period levied to the extent they are collected 60 days of year-end. The balance sheet records the taxes as taxes receivable, net of an allowance for doubtful accounts, with a corresponding amount recorded as deferred revenue until they become available. All revenue is initially recorded in the General Fund and transferred to the appropriate authorized fund.

CITY OF SANTA FE, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 SEPTEMBER 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

|  | Beginning<br>Balance<br>October 1 | Increases           | Decreases        | Ending<br>Balance<br>September 30 |
|--|-----------------------------------|---------------------|------------------|-----------------------------------|
| <b>Governmental Activities</b>               |                                   |                     |                  |                                   |
| <i>Capital assets not being depreciated:</i> |                                   |                     |                  |                                   |
| Land   | \$ 574,548                        | \$ -                | \$ -             | \$ 574,548                        |
| Total capital assets not being depreciated   | <u>574,548</u>                    | <u>-</u>            | <u>-</u>         | <u>574,548</u>                    |
| <i>Capital assets being depreciated:</i>     |                                   |                     |                  |                                   |
| Buildings                                    | 681,068                           | -                   | -                | 681,068                           |
| Building improvements                        | 283,445                           | -                   | -                | 283,445                           |
| Computers                                    | 304,140                           | 18,619              | 2,321            | 320,438                           |
| Equipment                                    | 1,132,066                         | 120,148             | 36,121           | 1,216,093                         |
| Furniture and fixtures                       | 14,606                            | -                   | -                | 14,606                            |
| Improvements (other than buildings)          | 92,099                            | -                   | -                | 92,099                            |
| Infrastructure                               | 26,845,854                        | -                   | -                | 26,845,854                        |
| Infrastructure improvements                  | 3,775,576                         | 153,891             | -                | 3,929,467                         |
| Radios                                       | 191,986                           | 3,765               | -                | 195,751                           |
| Vehicles                                     | 647,589                           | 114,099             | 112,174          | 649,514                           |
| Total capital assets being depreciated       | <u>33,968,429</u>                 | <u>410,522</u>      | <u>150,616</u>   | <u>34,228,335</u>                 |
| <i>Less accumulated depreciation for:</i>    |                                   |                     |                  |                                   |
| Buildings                                    | 326,307                           | 17,079              | -                | 343,386                           |
| Building improvements                        | 193,035                           | 13,469              | -                | 206,504                           |
| Computers                                    | 226,723                           | 35,548              | 2,321            | 259,950                           |
| Equipment                                    | 781,741                           | 83,308              | 34,235           | 830,814                           |
| Furniture and fixtures                       | 10,928                            | 697                 | -                | 11,625                            |
| Improvements (other than buildings)          | 29,364                            | 6,155               | -                | 35,519                            |
| Infrastructure                               | 12,426,186                        | 448,364             | -                | 12,874,550                        |
| Infrastructure improvements                  | 934,490                           | 254,591             | -                | 1,189,081                         |
| Radios                                       | 35,591                            | 19,609              | -                | 55,200                            |
| Vehicles                                     | 311,098                           | 60,811              | 70,901           | 301,008                           |
| Total accumulated depreciation               | <u>15,275,463</u>                 | <u>939,631</u>      | <u>107,457</u>   | <u>16,107,637</u>                 |
| Total capital assets being depreciated, net  | <u>18,692,966</u>                 | <u>(529,109)</u>    | <u>43,159</u>    | <u>18,120,698</u>                 |
| Governmental activities capital assets, net  | <u>\$ 19,267,514</u>              | <u>\$ (529,109)</u> | <u>\$ 43,159</u> | <u>\$ 18,695,246</u>              |

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**(CONTINUED)**  
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Depreciation expense was charged to functions/programs of the primary government as follows:

|  |    |                |
|--|----|----------------|
| General government administration                    | \$ | 8,857          |
| Community service                                    |    | 6,161          |
| Police/Judicial                                      |    | 110,512        |
| Library  |    | 11,558         |
| Streets  |    | 784,185        |
| Community center                                     |    | 7,105          |
| Fire marshal   |    | 2,425          |
| Parks  |    | 8,828          |
|  |    | <hr/>          |
| Total depreciation expense - governmental activities | \$ | <u>939,631</u> |

**NOTE 5 – LONG-TERM DEBT**

The following is a summary of changes in long-term liabilities for the year ended September 30, 2012:

|                                      | <b>Beginning<br/>Balance<br/><u>October 1</u></b> | <b><u>Additions</u></b> | <b><u>Payments</u></b> | <b>Ending<br/>Balance<br/><u>September 30</u></b> | <b>Due<br/>Within<br/><u>One Year</u></b> |
|--------------------------------------|---|-------------------------|------------------------|---|---|
| <b>Governmental Activities</b>       |   |                         |                        |   |   |
| Capital lease obligations            | \$ 295,746  | \$ 205,355              | \$ 189,118             | \$ 311,983  | \$ 128,423                                |
| Compensated absences                 | 551,834   | 345,815                 | 288,855                | 608,794   | -   |
| Net pension obligation               | <u>111,345</u>                                    | <u>8,884</u>            | <u>-</u>               | <u>120,229</u>                                    | <u>-</u>                                  |
| <b>Total Governmental Activities</b> |   |                         |                        |   |   |
| Long-term liabilities                | <u>\$ 958,925</u>                                 | <u>\$ 560,054</u>       | <u>\$ 477,973</u>      | <u>\$ 1,041,006</u>                               | <u>\$ 128,423</u>                         |

**Capital Lease Obligations:**

- (1) Computer software for City's court system, four Panasonic laptop computers, three digital in-car video cameras, and a metal building for the Street department. Total purchase price of \$122,970, financed by Suntrust Equipment Finance and Leasing Corp., one annual payment of \$42,013, with no interest and two annual payments of \$42,013, including interest at 2.5159% through December 15, 2012. \$ 40,982
  
  - (2) Twenty-two portable digital radios and fourteen mobile digital radios. Total purchase price of \$144,725, financed by Suntrust Equipment Finance and Leasing Corp., one annual payment of \$10,000, including interest at 2.40% and six annual payments of \$24,646, including interest at 2.40% through December 31, 2017. 135,410
  
  - (3) Four 2013 Dodge Police Chargers, 2007 Chevy Silverado, police canine transport unit, light bar and installation, asphalt paver, and three Watchguard video camera systems. Total purchase price \$205,355, financed by California First National Bank, one annual payment of \$69,764, with no interest and two annual payments of \$69,764, including interest at 1.93% through December 22, 2013. 135,591
- Total capital lease obligations \$ 311,983

**CITY OF SANTA FE, TEXAS**  
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The City entered into capital lease agreements in order to purchase vehicles, in-car video cameras, portable and mobile digital radios, laptop computers, and computer software for the police department. They also purchased tractors, mowers, asphalt paver, and constructed a metal building for the Street department. A capital lease was also entered into for two new outdoor A/C units at the library.

|                                |               |                   |
|--------------------------------|---------------|-------------------|
| Vehicles                       | \$ 205,669    |                   |
| Less: Accumulated depreciation | <u>33,906</u> |                   |
| Net vehicles                   |               | \$ 171,763        |
| Equipment                      | 196,341       |                   |
| Less: Accumulated depreciation | <u>36,373</u> |                   |
| Net equipment                  |               | 159,968           |
| Computers                      | 41,891        |                   |
| Less: Accumulated depreciation | <u>13,255</u> |                   |
| Net computers                  |               | 28,636            |
| Radios                         | 147,925       |                   |
| Less: Accumulated depreciation | <u>17,712</u> |                   |
| Net radios                     |               | 130,213           |
| Buildings                      | 60,533        |                   |
| Less: Accumulated depreciation | <u>6,390</u>  |                   |
| Net buildings                  |               | <u>54,143</u>     |
| Capitalized leased assets, net |               | <u>\$ 544,723</u> |

The following is a schedule of future minimum lease payments on the capital leases and the present value of the net minimum lease payments at September 30, 2012:

|                                    | <u>Governmental Activities</u><br><u>Capital Leases</u> |                |
|------------------------------------|---|----------------|
| <b>Year Ended September 30:</b>    |   |                |
| 2013                               | \$  | 136,423        |
| 2014                               |   | 94,410         |
| 2015                               |   | 24,646         |
| 2016                               |   | 24,646         |
| 2017 and future                    |   | <u>49,294</u>  |
| Total principal and interest       |   | 329,419        |
| Less: Amount representing interest |   | <u>17,436</u>  |
| Total future principal payments    | <u>\$</u>   | <u>311,983</u> |

**Net Pension Obligation:**

The City has not been able to contribute the full retirement rate for the fiscal year end 2009 thru 2012. This created an actual contribution that was less than the actuarially determined annual required contribution (ARC), and therefore, a net pension obligation of \$120,229 has been created. The City of Santa Fe has been allowed to phase-in the higher contribution rate over an eight year period beginning January 1, 2010. The net pension obligation in future years financial statements will be adjusted to reflect the difference between actual contributions paid and annual required contributions for that year.

**CITY OF SANTA FE, TEXAS**  
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**NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

In both the government-wide and governmental fund financial statements, no amounts were reported as “interfund receivables and payables,” “advances from or to other funds,” or “due to and from other funds” as of September 30, 2012. Also, no interfund transfers occurred that need to be disclosed.

**NOTE 7 – RISK MANAGEMENT**

During the normal course of business, the City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City’s risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. This pool is a risk-sharing pool providing insurance coverage to 2,748 Texas municipalities and other governmental units as of September 30, 2012. The risk pool is governed by a Board of Trustees which consists of 15 members, plus 3 ex-officio non-voting members, either elected or appointed in the manner specified per the TML bylaws. Each member of the Board must be either an employee or official of the governing body of an employee member of the Pool. The Board controls the operations of the risk pool and has various powers and duties as specified per the bylaws. Audited financial information for each risk pool may be obtained from the Chief Financial Officer, Texas Municipal League Intergovernmental Risk Pool, P.O. Box 149194, Austin, Texas 78714-9194. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. During the year ended September 30, 2012, the City paid out of its General Fund net premiums of approximately \$72,950 for provisions of various liability, property, and casualty insurance. The City has various deductible amounts ranging from \$1,000 to \$10,000 on various policies. TML will pay damages and claims subject to the limits of liability and stated deductible amounts per the approved declarations of coverage. Amounts over the stated limits of liability become the responsibility and risk of the City. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At year-end, the City did not have any significant probable claims.

The City also provides workers compensation insurance on its employees through TML. TML covers workers compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended September 30, 2012, the City contributed out of its General Fund net premiums of approximately \$41,690 for workers compensation. The contributed amount is based on the City’s estimated payroll applied to a classification rate determined by TML, times the City’s experience modifier and fund discount. Workers compensation is subject to change when audited by TML. At year-end September 30, 2012, the City believed the amounts paid would not change significantly from the amounts recorded.

The Texas Municipal League Intergovernmental Employee Benefits Pool (TML-IEBP) provides the city’s health, dental, and long-term disability insurance coverage for eligible employees and their dependents. The City pays 100 percent of the premiums for the employee’s coverage. The employee may choose to insure their dependents under the medical and dental plans. The employee is responsible for 100 percent of the cost of the dependent premiums and the premiums are payroll-deducted each pay period. The City does not retain any risk of loss on health, dental, and long-term disability.

Hartford Life Insurance Company provides the city’s life and accidental death and dismemberment insurance coverage for eligible employees and their dependents. The City pays 100 percent of the premiums for the employee’s coverage which is two times an employee’s annual salary. The employee may choose to add supplemental life insurance for themselves and for their dependents. The employee is responsible for 100 percent of the cost of the supplemental insurance premiums and the premiums are payroll-deducted each pay period. The City does not retain any risk of loss on life and accidental death and dismemberment.

**NOTE 8 – CONTINGENT LIABILITIES**

**Grants**

The City receives financial assistance from federal, state, and local government agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits

could become a liability of the General Fund. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the City of Santa Fe, Texas at September 30, 2012.

#### Litigation

The City is a defendant to various legal proceedings, which normally occur in the course of governmental operations. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that due to insurance coverage maintained by the City, the resolution of such matters will not have a material adverse effect on the financial condition of the City.

#### NOTE 9 – PENSION PLAN – TEXAS MUNICIPAL RETIREMENT SYSTEM

##### Plan Description

The City provides pension benefits for all of its regular full-time employees and regular part-time employees who work at least 1,000 hours or more per year through a non-traditional, joint contributor, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information (RSI) for the TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

##### Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for services since the plan began are 100% of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for services since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 10 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

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|   | <b>Plan Year</b>          | <b>Plan Year</b>          |
|---|---------------------------|---------------------------|
|   | <b><u>2011</u></b>        | <b><u>2012</u></b>        |
| Employee deposit rate   | 7.0%                      | 7.0%                      |
| Matching ratio (city to employee)                                     | 1.5 to 1                  | 1.5 to 1                  |
| Years required for vesting  | 10                        | 10                        |
| Service retirement eligibility<br>(expressed as age/years of service) | 60/10, 0/20               | 60/10, 0/20               |
| Updated Service Credit  | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity Increase (to retirees)  | 70% of CPI Repeating      | 70% of CPI Repeating      |

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

|   |                           |
|---|---------------------------|
| Annual Required Contribution (ARC)                | \$ 309,103 <sup>(1)</sup> |
| Interest on Net Pension Obligation                | 7,794 <sup>(2)</sup>      |
| Adjustment to the ARC                             | <u>(6,700)</u>            |
| Annual Pension Cost (APC)                         | 310,197                   |
| Contributions Made                                | <u>301,313</u>            |
| Increase (decrease) in net pension obligation     | 8,884                     |
| Net Pension Obligation/(Asset), beginning of year | <u>111,345</u>            |
| Net Pension Obligation/(Asset), end of year       | <u>\$ 120,229</u>         |

(1) The fiscal year annual required contribution (ARC) is determined by multiplying the monthly payroll by the full retirement rate.

(2) The interest on the net pension obligation is calculated by multiplying the prior year net pension obligation by 7%.

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City historical data is as follows:

| <u>Fiscal Year</u><br><u>Ending</u> | <u>Annual</u><br><u>Pension</u><br><u>Cost (APC)</u> | <u>Actual</u><br><u>Contribution</u><br><u>Made</u> | <u>Percentage</u><br><u>of APC</u><br><u>Contributed</u> | <u>Net Pension</u><br><u>Obligation/</u><br><u>(Asset)</u> |
|-------------------------------------|--|---|--|--|
| 2009                                | \$ 290,978   | \$ 255,116  | 88%  | \$ 35,862  |
| 2010                                | 344,545  | 295,927   | 86%  | 48,618   |
| 2011                                | 332,130  | 305,265   | 92%  | 26,865   |
| 2012                                | 310,197  | 301,313   | 97%  | 8,884  |

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

| Valuation date                                   | 12/31/2009                  | 12/31/2010 -<br>Restructured | 12/31/2011                  |
|--|-----------------------------|------------------------------|-----------------------------|
| Actuarial cost method                            | Projected Unit Credit       | Projected Unit Credit        | Projected Unit Credit       |
| Amortization method                              | Level Percent<br>of Payroll | Level Percent<br>of Payroll  | Level Percent<br>of Payroll |
| GASB 25 equivalent single<br>amortization period | 28 years; closed period     | 27 years; closed period      | 26 years; closed period     |
| Amortization period for new<br>gains/losses      | 30 years                    | 30 years                     | 30 years                    |
| Asset valuation method                           | 10-year Smoothed<br>Market  | 10-year Smoothed<br>Market   | 10-year Smoothed<br>Market  |
| Actuarial assumptions:                           |                             |                              |                             |
| Investment rate of return*                       | 7.5%                        | 7.0%                         | 7.0%                        |
| Projected salary increases*                      | Varies by age & service     | Varies by age & service      | Varies by age & service     |
| *Includes inflation at                           | 3.00%                       | 3.00%                        | 3.00%                       |
| Cost-of-living adjustments                       | 2.1%                        | 2.1%                         | 2.1%                        |

**Funded Status and Funding Progress** – In June, 2012, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2012 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

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The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (1)</u> | <u>Actuarial Accrued Liability (AAL) (2)</u> | <u>Funded Ratio (3)</u><br><u>(1) / (2)</u> | <u>Unfunded AAL (UAAL) (4)</u><br><u>(2) - (1)</u> | <u>Covered Payroll (5)</u> | <u>UAAL as a Percentage of Covered Payroll (6)</u><br><u>(4) / (5)</u> |
|---------------------------------|--------------------------------------|--|---|--|----------------------------|--|
| 12/31/2011                      | \$ 5,444,722                         | \$ 8,073,272                                 | 67.4%                                       | \$ 2,628,550                                       | \$ 2,844,067               | 92.4%  |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**NOTE 10 – SUBSEQUENT EVENT**

Subsequent to September 30, 2012, The City Council passed Ordinance No. 03-2013 that ordered a special election to be held in and throughout the City of Santa Fe on May 11, 2013, for the purpose of submitting a proposition to the voters of the City for the issuance of public improvements bonds in the amount of \$3,550,000 to be repaid with ad valorem taxes. The proceeds of the bonds were to be used for the construction of the City of Santa Fe Justice Center.

The election was held on May 11, 2013 as planned and the proposition passed voter approval. It is anticipated that the bonds will be issued and the construction of the Justice Center will begin in the near future.

**NOTE 11 – DISCLOSURES RELATED TO DISCRETELY PRESENTED COMPONENT UNIT**

**A. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Santa Fe Section 4B Economic Development Corporation have been prepared in accordance with generally accepted accounting principles accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. 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. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

The Corporation is a non-profit economic development corporation created and organized under the Constitution and laws of the State of Texas, particularly the Development Corporation Act of 1979, Article 5190.6 Section 4B, *Vernon’s Texas Civil Statutes*, as amended. The Corporation is governed by Section 4B of the Act and is a constituted authority and instrumentality of the City of Santa Fe, Texas.

In an election held on May 5, 2001, the qualified voters of the City of Santa Fe approved Proposition 1 adopting an additional one-half of one percent (1/2 cent) sales and use tax. The additional sales and use tax will be held by an economic

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development corporation for specifically identified economic development projects as authorized by Section 4B of the Act. The sales and use tax becomes effective on October 1, 2001.

The Corporation was created on July 12, 2001, by the City Council of the City of Santa Fe to act on behalf of the City to promote and develop specific economic development projects. The Secretary of State approved the Articles of Incorporation on July 26, 2001.

The Corporation is governed by a board of seven directors. All directors are appointed by the City Council of the City of Santa Fe for a term of two years. The City of Santa Fe shall approve all programs and expenditures of the corporation and shall annually review any financial statements of the corporation. The powers of the corporation shall be subject at all times to the control of the city's governing body and the city has the authority to alter the structure, organization, programs, or activities of the development corporation at any time.

The Board of Directors of the Corporation signed an Administrative Services Agreement with the City of Santa Fe to provide administrative and program support services to the Economic Development Corporation as requested by the Board of Directors. The purpose of the agreement is to have the City implement, administer, and carry out the duties that an executive director would have in administering the economic programs and to manage and administer such affairs of the Economic Development Corporation. The agreement is for a period of one year and payments shall be made in one-fourth increments and due at the end of each calendar quarter.

The Corporation is exempt from federal income tax as an organization described in Section 501C (3) of the Internal Revenue Code. The State Comptroller's office has treated Section 4B development corporations as exempt from state and local sales tax and state franchise tax.

#### **A-1. Reporting Entity**

In accordance with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," the Corporation's basic financial statements must present the reporting entity which consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Corporation's basic financial statements to be misleading or incomplete. The basic criteria used to determine component units is (1) the selection of the governing authority, (2) designation of management, (3) ability to significantly influence operations, (4) accountability for fiscal matters, (5) budgetary and taxing authority, and (6) funding and debt responsibility. Based on these criteria, the Corporation did not have any component units that should be included in the accompanying basic financial statements. However, the Corporation is considered to be, and is reported as, a component unit of the City of Santa Fe, Texas.

#### **A-2. Basic Financial Statements**

##### **General**

The Corporation's basic financial statements include both government-wide (reporting the Corporation as a whole) and fund financial statements (focusing on the Corporation's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Corporation's activities are all governmental in nature and no business type activities exist.

##### **Government-Wide Statements:**

In the government-wide Statement of Net Assets information is reported on all the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from this statement. The statement of net assets presents the governmental activities in a column on a consolidated basis and a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The Corporation's net assets are reported in two parts – invested in capital assets, net of related debt and restricted net assets for infrastructure improvements.

The government-wide Statement of Activities also reports on all the non-fiduciary activities of the government. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. The Corporation does not allocate indirect costs. 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 (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 as general revenues.

**Fund Financial Statements:**

Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. The Corporation only has one major fund (General Fund) and no nonmajor funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. A statement is presented in the basic financial statements to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-Wide financial statements.

**A-3. 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*. Accordingly, all of the Corporation's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred; regardless of the timing of related cash flows.

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities, and fund balances are generally included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. The Corporation records sales tax, which is subsequently remitted, as revenues and receivables when collected by the authorized agents.

The funds of the financial reporting entity are described below:

**Governmental Funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Corporation:

**General Fund** – the general fund is the primary operating fund of the Corporation and is always classified as a major fund. It accounts for all financial resources and transactions not required to be accounted for in another fund.

**A-4. Cash and Cash Equivalents**

The Economic Development Corporation's cash and cash equivalents are comprised of demand deposits and Certificates of Deposit. No more than 20% of the portfolio may be invested for a period greater than one year and no portion of a portfolio may be invested for a period greater than two years.

**A-5. Investments**

The Economic Development Corporation follows the same investment policy that has been adopted by the City of Santa Fe. This policy sets forth specific investment guidelines to insure safety, liquidity, diversification, yield, and public trust. The investments authorized by the policy, which is guided by state law, generally include: obligations of the United States of America or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; fully collateralized certificate of deposits; and other obligations, in which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States of America or their respective agencies and instrumentalities. The Corporation has also adopted a resolution and a participation agreement that authorizes participation in investment pools.

Investments for the Corporation are reported at fair value and are in compliance with the Corporation investment policy and state statutes governing investments. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**A-6. Receivables**

The Corporation's receivables in both the government-wide and governmental funds financial statements are made up of amounts due from county and state governments.

**A-7. Capital Assets**

Under GASB Statement No. 34, all capital assets whether owned by governmental activities or business-type activities, are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation is shown in the governmental funds financial statements.

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, drainage systems and similar items) are reported at cost or estimated historical cost, including all ancillary charges necessary to place the asset in its intended location and condition for use. Donated capital assets are reported at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest costs related to a capital asset or incurred during the construction phase of a capital asset is expensed and not capitalized. Capital assets are defined for financial statement purposes as assets with an estimated economic useful life in excess of one year and meet specific capitalization thresholds. They are depreciated using the straight line method of depreciation. The following represents the useful life and capitalization threshold of the Corporation's capital assets:

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| <u>Asset Type</u>                  | <u>Useful Life</u>                | <u>Capitalization Threshold</u>       |
|------------------------------------|-----------------------------------|---------------------------------------|
| Land                               | Inexhaustible and non-depreciable | All land, regardless of cost or value |
| Buildings                          | 40 years                          | \$25,000                              |
| Building Improvements              | 15 years                          | \$25,000                              |
| Improvements, Other Than Buildings | 15 years                          | \$20,000                              |
| Infrastructure                     | 60 years                          | \$100,000                             |
| Infrastructure Improvements        | 15 years                          | \$100,000                             |
| Computers and Computer Equipment   | 5 years                           | \$1,000                               |
| Equipment                          | 10 years                          | \$2,500                               |
| Furniture                          | 10 years                          | \$1,000                               |
| Radios and Communication Equipment | 10 years                          | \$1,000                               |
| Vehicles                           | 10 years                          | \$2,500                               |
| Library Books and Materials        | 10 years                          | \$10,000                              |

**A-8. Accounts Payable**

Accounts payable in the government-wide and governmental fund financial statements are 100% due to vendors.

**A-9. Long-Term Obligations**

All long-term obligations of the Corporation relate directly to governmental fund activities. The Corporation does not have any proprietary fund operations or business-type activities.

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. No long-term debt exists as of September 30, 2012.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. No new debt or other financing sources or principal or interest payments were made during the 2011-12 fiscal year. No long-term debt exists as of September 30, 2012.

**A-10. Equity Classifications**

In the Government-Wide Statements, equity is classified as net assets and displayed in two components:

- *Invested in capital asset* – Consists of capital assets including restricted capital assets, net of accumulated depreciation. No debt is related to the capital assets.
- *Restricted net assets* – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

In the Fund Financial Statements, beginning with the 2010-11 fiscal year, the Corporation implemented GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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- *Nonspendable Fund Balance* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid amounts, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – Committed fund balance includes amounts that can only be used for the specific purposes determined by a formal action of the Corporation’s highest level of decision-making authority, the Board of Directors of the Corporation. Committed amounts cannot be used for any other purpose unless the Corporation Board of Directors removes the constraints by taking the same type of formal action that imposed the restraints originally (e.g., resolution, ordinance).
- *Assigned Fund Balance* – Assigned fund balances are amounts that are constrained by the Corporation’s intent to be used for specific purposes, but are neither restricted nor committed. Decisions with regard to these amounts do not have to be made at the highest decision-making level. They may be made by a committee or other government official to which the Board delegates the authority. The constraints imposed by an assignment are more easily imposed and removed.
- *Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund. This represents General Fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund. These are amounts not previously included in the other categories which are technically available for any purpose and represent resources that are available for additional appropriation. Positive amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Corporation considers restricted funds to have been spent first. When an expenditure is incurred in unrestricted fund balances in which committed, assigned, or unassigned fund balances are available, the Corporation considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

#### A-11. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

#### B. – DEPOSITS AND INVESTMENTS

##### Policy

The Economic Development Corporation follows the same investment policy that has been approved by the City of Santa Fe City Council. The City Manager and Secretary/Treasurer are designated as investment officers and are responsible for investment decisions and activities. All deposits and investments are required to be secured by pledged collateral. The collateralization level is 102 percent of market value of principal and accrued interest on the deposits or investments less an amount insured by FDIC. In accordance with the investment policy exposure to declines in fair market values is managed by not investing more than 20% of the portfolio for a period greater than one year and no portion of a portfolio may be invested for a period greater than two years. The policy limits investments to investment types with an investment quality rating not less than AAA by a nationally recognized rating agency. Investment pools must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. The investments of the Corporation are in compliance with the Board’s investment policy. The Corporation did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments and deposits were

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complied with during the year. Investments at year end are representative of the types of investments maintained by the Corporation during the year.

### Deposits

The Corporation's deposits were with the contracted depository bank in interest bearing accounts. The deposits are not commingled with the City of Santa Fe funds. All amounts are subject to various State statutes that exist to secure the safety of public funds. A pledge agreement exists that requires the Corporation to have a first and prior lien on the securities to the extent of its funds on deposit and that none of the securities can be pledged or subjected to any lien other than that of the Corporation. The Corporation's deposits are categorized below to indicate the level of risk assumed by the Corporation as of September 30, 2012:

- 1: Insured or collateralized with securities held by the Corporation or by its agent in the Corporation's name.
- 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name.
- 3: Uncollateralized or collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Corporation's name.

For deposits, *custodial credit risk* is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. Protection of Corporation cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the financial institutions holding the assets. The Corporation's deposits at September 30, 2012, were secured by depository insurance or by collateral held by a third-party custodian in the Corporation's name, and therefore were not exposed to custodial credit risk.

At year-end, the Corporation's carrying amount of deposits was \$46,083 (all considered cash and cash equivalents) and the bank balance was \$54,803. The total bank balance is covered by Federal Depository Insurance (Risk Category 1) and collateralized by securities held by the pledging financial institution or by its trust department or agent in the name of the Corporation (Risk Category 1). The Corporation does not have any petty cash at the year end.

### Investments

*TexPool* – The Corporation is a participant in a Texas Local Government Investment Pool (TexPool), an external investment pool that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two Acts provide for the creation of public funds investments pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review. In addition to its annual review by an independent auditor, TexPool is subject to review by the State Auditor and the Internal Auditor of the Comptroller's Office. Results of these annual reviews may be obtained from TexPool Participant Services, c/o Federated Investors, Inc., 1001 Texas Avenue, Suite 1400, Houston, Texas 77002.

The Economic Development Corporation had \$99,563 invested in TexPool as of September 30, 2012, at a 0.11% average annual rate of return. TexPool's administrative and investment services are provided by Federated Investors, Inc., and the assets are safekept in a separate custodial account at State Street Bank and Trust in the name of TexPool. Its portfolio is made up of the following:

1. Obligations of the United States Government, its agencies and instrumentalities with a maximum final maturity of 397 days for fixed rate securities and 24 months for variable rate notes.

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SEPTEMBER 30, 2012

2. Fully collateralized repurchase agreements or reverse repurchase agreements (a) with defined termination dates, (b) secured by obligations of the United States, its agencies, or its instrumentalities, including certain mortgage – backed securities, (c) that require purchased securities to be pledged to the investing entity, in the entity’s name, and deposited at the time of investment with the investing entity or a third party, and (d) that are placed through primary government securities dealers, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas. The term of a reverse repurchase agreement may not exceed 90 days after the date of delivery. The maximum maturity on repurchase agreements may not exceed 181 days.
3. No-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. The money market mutual fund must maintain a dollar-weighted average stated maturity of 90 days or less and include in its investment objectives the maintenance of a stable net asset value of \$1.00.
4. Securities lending program that comply with various limitations.

TexPool will not invest in derivatives, commercial paper, or certificates of deposit.

TexPool operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. These TexPool balances are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by credit risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Texas Public Funds Investment Act. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

*Credit risk* is the risk that an issuer or counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool’s investment policy allows the portfolio’s investment manager to only invest in obligations of the U.S. Government, its agencies, and instrumentalities; repurchase agreements; no-load AAA money market mutual funds registered with the Securities and Exchange Commission, and securities lending programs. The TexPool portfolio is designed and managed to ensure it maintains its AAA rating (or equivalent) by a nationally recognized rating agency.

*Custodial credit risk* is the risk that, in the event of the failure of the counterparty, TexPool would not be able to recover the loss of its investments or collateral securities that are in the possession of an outside entity. To minimize custodial credit risk, all of TexPool’s investments are held by the Federal Reserve or the custodian in TexPool’s name. TexPool’s bank balances are fully collateralized by Federal depository insurance or collateralized by the institution holding the funds.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the value of an investment. TexPool’s portfolio has low interest rate risk due to restrictions on weighted average maturity and maximum maturity of any one investment. TexPool’s investment manager will maintain the weighted average maturity of the portfolio at sixty (60) days or less, no fixed rate security will exceed 397 days in maturity, and no variable rate note will exceed 24 months in maturity. The investment manager is required to maintain a stable \$1.00 price per unit (net asset value), however, the \$1.00 price is not guaranteed or insured by the State of Texas. Immediate action must be taken if the net asset value of the portfolio falls below \$0.995 or rises above \$1.005. These limitations are designed to minimize interest rate risk.

*LOGIC* – The Economic Development Corporation is a participant in a Local Government Investment Cooperative (LOGIC) that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Cooperative’s governing body is a five-member board of directors comprised of individuals who are employees, officers, or elected officials of Participants in the Cooperative or who do not have a business relationship with the Cooperative and are qualified to advise. The Logic bylaws also permit a maximum of two advisory directors to serve in a non-voting advisory capacity. These advisory directors shall be employees or members of the firms providing managerial services to Logic. The Cooperative offers various investment alternatives for Texas Government Entities. Currently, the Board has authorized one portfolio, “LOGIC I,” which is available to participants. The Corporation participates in the LOGIC I Portfolio which seeks preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. In order to comply with the Public Funds Investment Act, all portfolios will maintain a AAA rating or

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equivalent rating from at least one nationally recognized rating agency. The Logic Portfolio has been assigned a rating of AAAM by Standard & Poor's. An explanation of the significance of such ratings may be obtained from Standard & Poor's, 1221 Avenue of the Americas, New York, New York 10041.

The Economic Development Corporation had \$436,585 invested in LOGIC I as of September 30, 2012, at a 0.23% average annual rate of return. The LOGIC I Portfolio is comprised of the following eligible investments:

6. Obligations of the United States or its agencies and instrumentalities with a maximum final stated maturity of 397 days for fixed securities and 24 months for variable rate notes;
7. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the United States with a maximum maturity of 13 months;
8. Repurchase agreements with a defined termination date not to exceed 95 days, secured by obligations of the United States or its agencies and instrumentalities, or other obligations on which the principal and interest are unconditionally guaranteed or insured by the United States, which are collateralized fully;
9. Securities and Exchange Commission registered money market funds authorized by the Public Funds Investment Act and rated in the highest rating category by at least one nationally recognized rating agency; and
10. Commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance that is rated A-1 or P-1 or equivalent by two nationally recognized rating agencies or that is rated A-1 or P-1 or equivalent by one nationally recognized rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

The Board has entered into a contract with First Southwest Asset Management, Inc. and J.P. Morgan Investment Management, Inc. to serve as Co-Administrators of the Cooperative. Day to day administration of the Cooperative will be performed by First Southwest Asset Management, Inc. and J.P. Morgan Investment Management, Inc. First Southwest will provide administrative, participant support, and marketing services. J.P. Morgan Investment Management, Inc. or its affiliates will provide investment management, custody, fund accounting, and transfer agency services. J.P. Morgan Chase Bank, N.A. is the custodian for the Cooperative.

The financial statements of the Cooperative are examined and a certification issued by an independent certified public accounting firm. An Annual Report including the auditor's opinion is issued as of the close of the Cooperative's fiscal year, which ends August 31. Results of the annual report, investment policies, and an information statement can be obtained from LOGIC Participant Services, 325 North St. Paul Street, Suite 800, Dallas, Texas 75201.

LOGIC I is deemed a "2a7-like Pool" under Governmental Accounting Standards Statement No. 31. The Cooperative will operate the portfolio in a manner consistent with Rule 2a7 in all respects. This rule provides an exception to the fair value reporting for investments. Approved investments are carried at cost, which approximates market and may be liquidated as needed. These investments are not subject to credit risk categorization since the Board is not issued securities, but rather owns an undivided beneficial interest in the securities of the Portfolio. The Portfolio is not secured by an insurance policy, federal deposit insurance, or other secondary guarantee and is subject to investment risk, including possible loss of principal amount invested.

*Credit risk* is the possibility that the issuer of a bond or other security will fail to make timely payments of interest or principal. Logic I Portfolio will invest in obligations of the United States, its agencies or instrumentalities, and other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the United States. The portfolio may invest in obligations that offer more varied credit risk but only upon being satisfied that the credit risk is minimal.

*Interest rate risk* is the potential for a decline in market value due to rising interest rates. The Logic I Portfolio presents little interest rate risk. The dollar-weighted average maturity of the portfolio is 60 days or less (or fewer days, if required to maintain its rating) and the maximum final stated maturity of the portfolio will not exceed 90 days. The portfolio's

CITY OF SANTA FE, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)  
SEPTEMBER 30, 2012

maximum final stated maturity is 397 days for fixed rate securities and 24 months for variable rate securities. The Board has determined, in good faith, that it is in the best interest of the portfolio to maintain a stable net asset value of \$1.00 per unit. Investments in the portfolio are neither insured nor guaranteed by the U.S. Government and there can be no assurance that the portfolio will maintain a stable net asset value of \$1.00. Policies have been established to stabilize, to the extent reasonably possible, the net asset value per unit of \$1.00.

*Concentration of credit risk* is the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specified issuer. The investment policy requires diversification by security type and institution, but does not place a fixed percentage limit for any other instrument. At September 30, 2012, the Corporation had no concentration of credit risk.

**C. – RECEIVABLES**

Receivables at September 30, 2012, consist of the following:

|   |                     |
|---|---------------------|
| County of Galveston - this represents 90% reimbursement due from county government for Economic Development Corporation advanced funds to acquire right-of-ways related to FM 646 from FM 1764 to SH 6 project. No allowance for uncollectible has been set up for this amount even though it will not be collected within one year. It may be several years before the project is complete and reimbursement funds are available to the County of Galveston for ultimate return to the Economic Development Corporation (See Note 8 for details) | \$ 1,002,861        |
| Texas Comptroller of Public Accounts - an amount due from the state government for the Economic Development Corporation's share of local sales tax collected in the City of Santa Fe for the months of August and September, 2012, but not remitted until October and November, 2012. No allowance for uncollectible has been set up since this amount has been received in the subsequent year.  | <u>81,364</u>       |
| Total receivables   | <u>\$ 1,084,225</u> |

CITY OF SANTA FE, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 (CONTINUED)  
 SEPTEMBER 30, 2012

**D. – CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2012 was as follows:

|  | Beginning<br>Balance<br>October 1 | Increases        | Decreases         | Ending<br>Balance<br>September 30 |
|--|-----------------------------------|------------------|-------------------|-----------------------------------|
| <b>Governmental Activities</b>                   |                                   |                  |                   |                                   |
| <i>Capital assets not being depreciated:</i>     |                                   |                  |                   |                                   |
| Land - property owners<br>easement contributions | \$ 23,800                         | \$ 29,903        | \$ -              | \$ 53,703                         |
| Construction in progress                         | <u>347,216</u>                    | <u>9,052</u>     | <u>187,043</u>    | <u>169,225</u>                    |
| Total capital assets not being depreciated       | <u>371,016</u>                    | <u>38,955</u>    | <u>187,043</u>    | <u>222,928</u>                    |
| <i>Capital assets being depreciated:</i>         |                                   |                  |                   |                                   |
| Less accumulated depreciation                    | <u>-</u>                          | <u>-</u>         | <u>-</u>          | <u>-</u>                          |
| Total capital assets being depreciated, net      | <u>-</u>                          | <u>-</u>         | <u>-</u>          | <u>-</u>                          |
| Governmental activities capital assets, net      | <u>\$ 371,016</u>                 | <u>\$ 38,955</u> | <u>\$ 187,043</u> | <u>\$ 222,928</u>                 |

No depreciation expense was charged to expenditures/expenses of the Corporation.

Capital asset balance of \$222,928 was related to the following commitments (See Note H):

|   |                   |
|---|-------------------|
| Waterline Project on FM 1764 Between Avenue Q<br>and FM 646 North | \$ 178,873        |
| Waterline Project on FM 1764 Between 3rd Street<br>and Avenue S   | <u>44,055</u>     |
| Total   | <u>\$ 222,928</u> |

Upon completion of each project the infrastructure assets will be transferred to Galveston County Water Control and Improvement District No. 8 (WCID No. 8) per interlocal agreement (See Note H).

**E. – LONG-TERM DEBT**

The Corporation paid off all their long-term debt as of September 30, 2010. No new debt has been incurred in the 2011-12 fiscal year, therefore the Corporation has no long-term debt as of September 30, 2012.

**F. – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet when they are expected to be liquidated within one year. If the receivable or payable is expected to be liquidated after one year, they are classified as “advances to other funds” or “advances from other funds.” Interfund transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

As of September 30, 2012, no amounts were reported as interfund receivables, payables, or transfers in the government-wide or governmental fund financial statements.

**G. – RISK MANAGEMENT**

During the normal course of business, the Corporation is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors or omissions; and natural disasters. The Corporation has been included as a “covered party” of the City of Santa Fe’s insurance coverage and is entitled to all the declarations of coverage available to the City. The City’s risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk Pool. This pool is a risk-sharing pool providing insurance coverage to 2,748 Texas municipalities and other governmental units as of September 30, 2012. The risk pool is governed by a Board of Trustees which consists of 15 members, plus 3 ex-officio non-voting members, either elected or appointed in the manner specified per the TML bylaws. Each member of the Board must be either an employee or official of the governing body of an employee member of the Pool. The Board controls the operations of the risk pool and has various powers and duties as specified in its bylaws. Audited financial information for each risk pool may be obtained from the Chief Financial Officer, Texas Municipal League Intergovernmental Risk Pool, P.O. Box 149194, Austin, Texas 78714-9194.

The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements related to the City or the Corporation has not exceeded insurance coverage for any of the last three years. All insurance premiums are paid by the City of Santa Fe through their General Fund. During the year ended September 30, 2012, the City paid net premiums of approximately \$72,950 for provisions of various liability, property, and casualty insurance. The City has coverage deductibles ranging from \$1,000 to \$10,000 on various policies. TML will pay damages and claims subject to the limits of liability and stated deductible amounts in accordance with the approved declarations of coverage. Amounts over the stated limits of liability become the responsibility and risk of the City of Santa Fe or the Economic Development Corporation. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At year-end, neither the City nor the Corporation had any significant probable claims.

The Corporation does not have any employees, therefore, workers compensation and other employee benefit insurances are not necessary.

**H. – COMMITMENTS & CONTINGENT LIABILITIES**

Water and Sewer Line Project to FM 646, Texas State Highway 6, and FM 1764

The Economic Development Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on August 19, 2008 and renewed the agreement on August 21, 2012. The Corporation will contribute funds for the construction, surveying, engineering, and related costs of relocating and adding water and sewer lines to FM 646, Texas State Highway 6, and FM 1764, not to exceed a total of one million dollars (\$1,000,000). A total amount of \$1,855 was contributed during the 2011-12 year, and a cumulative amount of \$43,398 has been contributed as of September 30, 2012. The remaining amount of \$956,602 will be contributed in future years. This amount has not been recorded in the 2011-12 year financial statements.

Jackson Street and Highway 6 Waterline Loop Project

The Economic Development Corporation approved the Jackson Street and Highway 6 Waterline Loop Project on August 18, 2009. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on April 13, 2012. This agreement specifies that the Corporation and WCID No. 8 work

**CITY OF SANTA FE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2012**

together for water and sewer development in relation to the above approved project. The Corporation will pay for all construction and non-construction costs and enter into contracts with the engineer and construction contractor for the construction of the project. The Corporation will also be responsible for all costs associated with repairs and expenses of enforcement on the contractor's warranty, including the enforcement of such warranty against any construction bonding or surety companies, during the first year after completion and acceptance of the project.

After completion and acceptance of the improvements by the Corporation, they will be made available to WCID No. 8 for use as part of its facilities, along with any land acquisitions and/or right-of-way acquired by the Corporation necessary for the project. WCID No. 8 has agreed to assume full responsibility for the maintenance and operation of the project beginning one year after the completion of the project and its acceptance by the Corporation. Once the project is received by WCID No. 8, the Corporation ceases to bear any further costs or expenses whatsoever in connection with the project.

As of September 30, 2012, the amount authorized for the project is \$191,489 with actual expenditures incurred of \$187,043. This project was complete as of September 30, 2012, and transferred to WCID No. 8 per interlocal agreement on February 2, 2012.

Waterline Project on FM 1764 Between Avenue Q and FM 646 North

The Economic Development Corporation approved the Waterline Project on FM 1764 Between Avenue Q and FM 646 North on May 25, 2012. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on December 12, 2012. This agreement specifies that the Corporation and WCID No. 8 work together for water and sewer development in relation to the above approved project. The Corporation will pay for all construction and non-construction costs and enter into contracts with the engineer and construction contractor for the construction of the project. The Corporation will also be responsible for all costs associated with repairs and expenses of enforcement of the contractor's warranty, including the enforcement of such warranty against any construction bonding or surety companies, during the first year after completion and acceptance of the project.

After completion and acceptance of the improvements by the Corporation, they will be made available to WCID No. 8 for use as part of its facilities, along with any land acquisitions and/or right-of-way acquired by the Corporation necessary for the project. WCID No. 8 has agreed to assume full responsibility for the maintenance and operation of the project beginning one year after the completion of the project and its acceptance by the Corporation. Once the project is received by WCID No. 8, the Corporation ceases to bear any further costs or expenses whatsoever in connection with the project.

As of September 30, 2012, the amount authorized for the project is \$185,996 with actual expenditures incurred of \$178,873. This project is complete as of September 30, 2012, and will be transferred to WCID No. 8 per interlocal agreement in 2012-13 year.

Waterline Project on FM 1764 Between 3<sup>rd</sup> Street and Avenue S

The Economic Development Corporation approved the Waterline Project on FM 1764 Between 3<sup>rd</sup> Street and Avenue S on May 25, 2012. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on December 14, 2012. This agreement specifies that the Corporation and WCID No. 8 work together for water and sewer development in relation to the above approved project. The Corporation will pay for all construction and non-construction costs and enter into contracts with the engineer and construction contractor for the construction of the project. The Corporation will also be responsible for all costs associated with repairs and expenses of enforcement of the contractor's warranty, including the enforcement of such warranty against any construction bonding or surety companies, during the first year after completion and acceptance of the project.

After completion and acceptance of the improvements by the Corporation, they will be made available to WCID No. 8 for use as part of its facilities, along with any land acquisitions and/or right-of-way acquired by the Corporation necessary for the project. WCID No. 8 has agreed to assume full responsibility for the maintenance and operation of the project beginning one year after the completion of the project and its acceptance by the Corporation. Once the project is received by WCID No. 8, the Corporation ceases to bear any further costs or expenses whatsoever in connection with the project.

**CITY OF SANTA FE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**(CONTINUED)**  
**SEPTEMBER 30, 2012**

As of September 30, 2012, the amount authorized for the project is \$167,470 with actual expenditures incurred of \$44,055. The remaining authorized project costs of \$123,415 has not been recorded in the 2011-12 year financial statements but will be incurred and reported in future years as the project continues.

Waterline Project on FM 1764 Between Rush Road and La Marque City Limits

The Economic Development Corporation approved the Waterline Project on FM 1764 Between Rush Road and La Marque City Limits on May 25, 2010. As of September 30, 2012, the amount authorized for the project is \$350,082 with no actual expenditures incurred. The authorized amount of \$350,082 has not been recorded in the 2011-12 year financial statements but will be incurred and reported in future years as the project continues.

Right-of-way Purchases Project – FM 646 From FM 1764 to SH 6

The Board of Directors of the Economic Development Corporation approved an interlocal agreement between the County of Galveston, the City of Santa Fe, and the Economic Development Corporation on June 7, 2012. The agreement terms specify that the Economic Development Corporation will advance \$1,300,000 of funds to the City of Santa Fe to forward to the County of Galveston for the County to acquire right-of-ways, within the City limits of the City of Santa Fe, related to the FM 646 from FM 1764 to SH 6 project. The funds will be advanced in seven equal installments of \$185,715 per installment starting June 30, 2012 through December 31, 2012. The County of Galveston has also entered into a contract with the Texas Department of Transportation (TxDot) in which TxDot will reimburse 90% to the County of eligible right-of-way acquisitions. At such time that the County has received the maximum amount of reimbursement it is entitled to receive from TxDot, it will reimburse the City of Santa Fe for forwarding to the Economic Development Corporation approximately 90% of the advanced funds or \$1,170,000. TxDot does not currently have any funds available to reimburse the County for this project and they make no assurances to the County of Galveston, the City of Santa Fe, or the Economic Development Corporation as to when such funds will become available. It could be several years before reimbursement funds from TxDot become available for ultimate return to the Economic Development Corporation. The September 30, 2012 financial statements have recorded \$742,860 of advanced funds as an expenditure, and \$668,574 (90% of \$742,860) as an accounts receivable and revenue from the County of Galveston. The remaining amounts will be recorded in future years as the project continues.

Litigation

There are no lawsuits pending against the Corporation that would in the opinion of management and legal counsel result in claims that would have a material effect on the financial statements of the Corporation.

**REQUIRED SUPPLEMENTARY INFORMATION**

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CITY OF SANTA FE, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT 1

|  | <u>Budgeted Amounts</u> |                  | <u>Actual</u><br>Amounts | <u>Variance with</u><br><u>Final Budget</u><br>Favorable (Unfavorable) |
|--|-------------------------|------------------|--------------------------|--|
|  | <u>Original</u>         | <u>Final</u>     |                          |  |
| <b>Revenues</b>  |                         |                  |                          |  |
| Taxes:   |                         |                  |                          |  |
| Property   | \$ 1,683,866            | \$ 1,683,866     | \$ 1,687,561             | \$ 3,695   |
| Franchise and contract fees  | 717,960                 | 805,960          | 797,726                  | (8,234)  |
| Sales tax  | 870,000                 | 870,000          | 912,808                  | 42,808   |
| Sales tax - property tax reduction   | 435,000                 | 435,000          | 456,404                  | 21,404   |
| Licenses and permits   | 147,900                 | 147,900          | 111,912                  | (35,988)   |
| Municipal finds and cash bond forfeits   | 256,500                 | 264,858          | 222,918                  | (41,940)   |
| Intergovernmental revenues   | 64,900                  | 66,124           | 69,617                   | 3,493  |
| Interest income  | 10,000                  | 10,000           | 8,627                    | (1,373)  |
| Penalty and interest, property taxes   | 25,000                  | 25,000           | 27,949                   | 2,949  |
| Other revenues   | 16,000                  | 37,278           | 39,525                   | 2,247  |
|  | <u>4,227,126</u>        | <u>4,345,986</u> | <u>4,335,047</u>         | <u>(10,939)</u>  |
| <b>Expenditures</b>  |                         |                  |                          |  |
| Current:   |                         |                  |                          |  |
| General government administration  | 536,511                 | 588,062          | 577,351                  | 10,711   |
| Tax  | 15,856                  | 15,856           | 13,301                   | 2,555  |
| Community services   | 275,277                 | 275,277          | 268,804                  | 6,473  |
| Judicial/Police  | 2,360,282               | 2,400,721        | 2,310,408                | 90,313   |
| Fire Marshal   | 13,487                  | 13,487           | 13,198                   | 289  |
| Public Safety  | 67,863                  | 67,863           | 66,459                   | 1,404  |
| Library  | 191,000                 | 191,200          | 185,792                  | 5,408  |
| Streets  | 623,126                 | 626,003          | 614,744                  | 11,259   |
| Parks  | 62,391                  | 62,391           | 56,735                   | 5,656  |
| Community center   | 16,875                  | 18,375           | 17,829                   | 546  |
| Capital expenditures   | 174,025                 | 381,208          | 377,793                  | 3,415  |
| Debt service:  |                         |                  |                          |  |
| Principal retirement   | 190,059                 | 190,420          | 189,118                  | 1,302  |
| Interest   | 5,308                   | 5,308            | 5,182                    | 126  |
| Texas General Land Office (GLO)  |                         |                  |                          |  |
| Community Development Block Grant -<br>Disaster Recovery Grant Program; Contract<br>#GLO10-5184-000-5167 - Round 1 |                         |                  |                          |  |
| Water facilities   | -                       | -                | -                        | -  |
| Sewer facilities   | -                       | -                | -                        | -  |
| Engineering  | -                       | -                | -                        | -  |
| Planning/Project delivery  | -                       | -                | -                        | -  |

CITY OF SANTA FE, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT 1

|  | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|--|-------------------------|---------------------|---------------------------|---------------------------------------|
|  | <u>Original</u>         | <u>Final</u>        |                           | <u>Favorable (Unfavorable)</u>        |
| (Continued)  |                         |                     |                           |                                       |
| Texas General Land Office (GLO)  |                         |                     |                           |                                       |
| Community Development Block Grant -<br>Disaster Recovery Grant Program; Contract<br>#GLO12-228-000-5529 - Round 2.1  |                         |                     |                           |                                       |
| Sewer facilities   | \$ -                    | \$ -                | \$ -                      | \$ -                                  |
| Engineering/Architectural Services   | -                       | -                   | -                         | -                                     |
| Planning/Project delivery  | -                       | -                   | -                         | -                                     |
| Texas General Land Office (GLO)  |                         |                     |                           |                                       |
| Community Development Block Grant -<br>Disaster Recovery Grant Program; Contract<br>#GLO13-078-000-7101 - Round 2.2  |                         |                     |                           |                                       |
| Water facilities   | -                       | -                   | -                         | -                                     |
| Sewer facilities   | -                       | -                   | -                         | -                                     |
| Engineering/Architectural Services   | -                       | -                   | -                         | -                                     |
| Project delivery   | -                       | -                   | -                         | -                                     |
| Environmental  | -                       | -                   | -                         | -                                     |
| Texas Comptroller of Public Accounts (CPA);<br>Energy Efficiency & Conservation Block<br>Grant (EECBG) Program; American Recovery &<br>Reinvestment Act (ARRA); Contract #CS0362 |                         |                     |                           |                                       |
| Administration/Consultant  | -                       | -                   | -                         | -                                     |
| Subcontractor  | -                       | -                   | -                         | -                                     |
|  | <u>4,532,060</u>        | <u>4,836,171</u>    | <u>4,696,714</u>          | <u>139,457</u>                        |
| <b>Total expenditures</b>  |                         |                     |                           |                                       |
|  | <u>4,532,060</u>        | <u>4,836,171</u>    | <u>4,696,714</u>          | <u>139,457</u>                        |
| <b>Excess (deficiency) of revenues<br/>over (under) expenditures</b>   | <u>(304,934)</u>        | <u>(490,185)</u>    | <u>(361,667)</u>          | <u>128,518</u>                        |
| <b>Other Financing Sources (Uses):</b>   |                         |                     |                           |                                       |
| Transfer in  | -                       | -                   | -                         | -                                     |
| Transfer out   | -                       | -                   | -                         | -                                     |
| Proceeds from sale of capital assets   | -                       | 16,552              | 16,552                    | -                                     |
| Capital lease contracts  | -                       | 205,355             | 205,355                   | -                                     |
| Issuance of debt - line of credit proceeds   | -                       | -                   | -                         | -                                     |
| Appropriated fund balance  | <u>304,934</u>          | <u>268,278</u>      | <u>-</u>                  | <u>(268,278)</u>                      |
|  | <u>304,934</u>          | <u>490,185</u>      | <u>221,907</u>            | <u>(268,278)</u>                      |
| <b>Total other financing sources (uses)</b>  |                         |                     |                           |                                       |
|  | <u>304,934</u>          | <u>490,185</u>      | <u>221,907</u>            | <u>(268,278)</u>                      |
| <b>Net change in fund balances</b>   | -                       | -                   | (139,760)                 | (139,760)                             |
| <b>Fund balances at beginning of year</b>  | <u>1,522,065</u>        | <u>1,522,065</u>    | <u>1,522,065</u>          | -                                     |
| <b>Fund balances at end of year</b>  | <u>\$ 1,522,065</u>     | <u>\$ 1,522,065</u> | <u>\$ 1,382,305</u>       | <u>\$ (139,760)</u>                   |

See notes to required supplementary information.

**CITY OF SANTA FE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -**  
**SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK**  
**GRANT - DISASTER RECOVERY GRANT PROGRAM,**  
**CONTRACT #GLO10-5184-000-5167 - ROUND 1**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**EXHIBIT 2**

|  | <u>Budgeted Amounts</u> |              | <u>Actual</u><br><u>Amounts</u> | <u>Variance with</u><br><u>Final Budget</u><br><u>Favorable (Unfavorable)</u> |
|--|-------------------------|--------------|---------------------------------|---|
|  | <u>Original</u>         | <u>Final</u> |                                 |   |
| <b>Revenues</b>  |                         |              |                                 |   |
| Intergovernmental revenues:  |                         |              |                                 |   |
| Texas General Land   |                         |              |                                 |   |
| Office Grant   | \$ -                    | \$ 736,853   | \$ 333,861                      | \$ (402,992)  |
| Total revenues   | -                       | 736,853      | 333,861                         | (402,992)   |
| <b>Expenditures</b>  |                         |              |                                 |   |
| Current:   |                         |              |                                 |   |
| Water facilities   | -                       | 324,977      | 250,733                         | 74,244  |
| Sewer facilities   | -                       | 324,977      | -                               | 324,977   |
| Engineering  | -                       | 57,749       | 71,468                          | (13,719)  |
| Planning/Project delivery  | -                       | 29,150       | 11,660                          | 17,490  |
| Total expenditures   | -                       | 736,853      | 333,861                         | 402,992   |
| <b>Excess (deficiency) of revenues</b><br><b>over (under) expenditures</b> | -                       | -            | -                               | -   |
| <b>Other Financing Sources (Uses):</b>                                     |                         |              |                                 |   |
| Transfer in  | -                       | -            | -                               | -   |
| Transfer out   | -                       | -            | -                               | -   |
| Total other financing sources (uses)                                       | -                       | -            | -                               | -   |
| <b>Net change in fund balances</b>   | -                       | -            | -                               | -   |
| <b>Fund balances at beginning of year</b>                                  | -                       | -            | -                               | -   |
| <b>Fund balances at end of year</b>  | <u>\$ -</u>             | <u>\$ -</u>  | <u>\$ -</u>                     | <u>\$ -</u>   |

See notes to required supplementary information.

CITY OF SANTA FE, TEXAS

EXHIBIT 3

SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
 SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK  
 GRANT - DISASTER RECOVERY GRANT PROGRAM,  
 CONTRACT #GLO12-228-000-5529 - ROUND 2.1  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

|  | Budgeted Amounts |                | Actual<br>Amounts | Variance with<br>Final Budget |
|--|------------------|----------------|-------------------|-------------------------------|
|  | Original         | Final          |                   | Favorable (Unfavorable)       |
| <b>Revenues</b>  |                  |                |                   |                               |
| Intergovernmental revenues:  |                  |                |                   |                               |
| Texas General Land<br>Office Grant                                   | \$ -             | \$ 779,240     | \$ 509,402        | \$ (269,838)                  |
| <b>Total revenues</b>  | <u>-</u>         | <u>779,240</u> | <u>509,402</u>    | <u>(269,838)</u>              |
| <b>Expenditures</b>  |                  |                |                   |                               |
| Current:   |                  |                |                   |                               |
| Sewer facilities   | -                | 618,645        | 449,727           | 168,918                       |
| Engineering/Architectural Services                                   | -                | 87,850         | 38,939            | 48,911                        |
| Planning/Project delivery  | -                | 72,745         | 20,736            | 52,009                        |
| <b>Total expenditures</b>  | <u>-</u>         | <u>779,240</u> | <u>509,402</u>    | <u>269,838</u>                |
| <b>Excess (deficiency) of revenues<br/>over (under) expenditures</b> | <u>-</u>         | <u>-</u>       | <u>-</u>          | <u>-</u>                      |
| <b>Other Financing Sources (Uses):</b>                               |                  |                |                   |                               |
| Transfer in  | -                | -              | -                 | -                             |
| Transfer out   | -                | -              | -                 | -                             |
| <b>Total other financing sources (uses)</b>                          | <u>-</u>         | <u>-</u>       | <u>-</u>          | <u>-</u>                      |
| <b>Net change in fund balances</b>                                   | <u>-</u>         | <u>-</u>       | <u>-</u>          | <u>-</u>                      |
| <b>Fund balances at beginning of year</b>                            | <u>-</u>         | <u>-</u>       | <u>-</u>          | <u>-</u>                      |
| <b>Fund balances at end of year</b>                                  | <u>\$ -</u>      | <u>\$ -</u>    | <u>\$ -</u>       | <u>\$ -</u>                   |

**CITY OF SANTA FE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -**  
**SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK**  
**GRANT - DISASTER RECOVERY GRANT PROGRAM,**  
**CONTRACT #GLO13-078-000-7101 - ROUND 2.2**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**EXHIBIT 4**

|   | <u>Budgeted Amounts</u> |              | <u>Actual</u><br><u>Amounts</u> | <u>Variance with</u><br><u>Final Budget</u> |
|---|-------------------------|--------------|---------------------------------|---|
|   | <u>Original</u>         | <u>Final</u> |                                 | <u>Favorable (Unfavorable)</u>              |
| <b>Revenues</b>                           |                         |              |                                 |   |
| Intergovernmental revenues:               |                         |              |                                 |   |
| Texas General Land                        |                         |              |                                 |   |
| Office Grant                              | \$ -                    | \$ -         | \$ -                            | \$ -  |
|   |                         |              |                                 |   |
| Total revenues                            | -                       | -            | -                               | -   |
| <b>Expenditures</b>                       |                         |              |                                 |   |
| Current:                                  |                         |              |                                 |   |
| Water facilities                          | -                       | -            | -                               | -   |
| Sewer facilities                          | -                       | -            | -                               | -   |
| Engineering/Architectural Services        | -                       | -            | -                               | -   |
| Project delivery                          | -                       | -            | -                               | -   |
| Environmental                             | -                       | -            | -                               | -   |
|   |                         |              |                                 |   |
| Total expenditures                        | -                       | -            | -                               | -   |
| <b>Excess (deficiency) of revenues</b>    |                         |              |                                 |   |
| <b>over (under) expenditures</b>          | -                       | -            | -                               | -   |
| <b>Other Financing Sources (Uses):</b>    |                         |              |                                 |   |
| Transfer in                               | -                       | -            | -                               | -   |
| Transfer out                              | -                       | -            | -                               | -   |
|   |                         |              |                                 |   |
| Total other financing sources (uses)      | -                       | -            | -                               | -   |
| <b>Net change in fund balances</b>        | -                       | -            | -                               | -   |
| <b>Fund balances at beginning of year</b> | -                       | -            | -                               | -   |
| <b>Fund balances at end of year</b>       | <u>\$ -</u>             | <u>\$ -</u>  | <u>\$ -</u>                     | <u>\$ -</u>                                 |

CITY OF SANTA FE, TEXAS

EXHIBIT 5

*SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUND - ENERGY EFFICIENCY & CONSERVATION  
BLOCK GRANT (EECBG) PROGRAM; AMERICAN RECOVERY  
AND REINVESTMENT ACT (ARRA); CONTRACT #CS0362  
FOR THE YEAR ENDED SEPTEMBER 30, 2012*

|  | <u>Budgeted Amounts</u> |               | <u>Actual</u>  | <u>Variance with</u>                                  |
|--|-------------------------|---------------|----------------|---|
|  | <u>Original</u>         | <u>Final</u>  | <u>Amounts</u> | <u>Final Budget</u><br><u>Favorable (Unfavorable)</u> |
| <b>Revenues</b>  |                         |               |                |   |
| Intergovernmental revenues:  |                         |               |                |   |
| Texas Comptroller of Public<br>Accounts Grant                            | \$ -                    | \$ 39,379     | \$ 39,379      | \$ -  |
| <br>Total revenues   | <u>-</u>                | <u>39,379</u> | <u>39,379</u>  | <u>-</u>  |
| <br><b>Expenditures</b>  |                         |               |                |   |
| Current:   |                         |               |                |   |
| Administration/Consultant<br>Subcontractor                               | -                       | 39,379        | 39,379         | -   |
| <br>Total expenditures   | <u>-</u>                | <u>39,379</u> | <u>39,379</u>  | <u>-</u>  |
| <br><b>Excess (deficiency) of revenues<br/>over (under) expenditures</b> | <u>-</u>                | <u>-</u>      | <u>-</u>       | <u>-</u>  |
| <br><b>Other Financing Sources (Uses):</b>                               |                         |               |                |   |
| Transfer in  | -                       | -             | -              | -   |
| Transfer out   | -                       | -             | -              | -   |
| <br>Total other financing sources (uses)                                 | <u>-</u>                | <u>-</u>      | <u>-</u>       | <u>-</u>  |
| <br><b>Net change in fund balances</b>                                   | <u>-</u>                | <u>-</u>      | <u>-</u>       | <u>-</u>  |
| <br><b>Fund balances at beginning of year</b>                            | <u>-</u>                | <u>-</u>      | <u>-</u>       | <u>-</u>  |
| <br><b>Fund balances at end of year</b>                                  | <u>\$ -</u>             | <u>\$ -</u>   | <u>\$ -</u>    | <u>\$ -</u>   |

See notes to required supplementary information.

**BUDGETARY INFORMATION**

Annual budgets are legally adopted for the General Fund and Special Revenue Funds on a basis consistent with generally accepted accounting principles. The City follows the procedures described below in establishing the budgetary data reflected in the financial statements.

On or before the first meeting of July of each year, the City Manager submits to the Council a proposed budget for the ensuing fiscal year and the budget message. The Council reviews and makes any appropriate changes to these documents prior to publishing the final budget. The Council holds a public hearing, not less than ten days subsequent to the time the budget is filed, to obtain taxpayer comments. At the conclusion of the hearing, the budget is acted upon by Council. Adoption of the budget constitutes appropriation of the amounts specified in the budget as expenditures from the funds indicated and constitutes a levy of the proposed property tax contained in the budget.

Expenditures, on the departmental level, should not exceed appropriations. However, the City Manager may transfer any unencumbered appropriation balance or any portion thereof among programs within a department. By ordinance, the City Council may transfer all or part of any unencumbered appropriation balance from one department to another. Every appropriation, except an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned; the purpose of any such appropriation shall be deemed abandoned if three years pass without any disbursement from or encumbrance of the appropriation. Additionally, by ordinance, the City Council may amend the budget to make supplemental appropriations to (1) carry excess current revenues to a subsequent year, (2) retire indebtedness, or (3) to fund emergency appropriations due to grave public necessity, or to meet unusual and unforeseen conditions which could not be reasonable diligent thought and attention have been included in the original budget.

On December 9, 1993, the City adopted a resolution establishing a budget policy. One provision of the policy allows the budget to contain a contingency fund not to exceed five percent of the proposed general fund expenditures. This fund may, at the approval of City Council, be used to fund certain unanticipated expenditures which might arise during the year.

Another provision of the policy addresses fund balance. The City will attempt to maintain a fund balance equal to approximately three months' operating expenditures.

The original budget was legally adopted by the City Council on September 22, 2011. Passed, approved, and adopted by City Council was Ordinance Number 07-2012 dated January 26, 2012, and Ordinance Number 17-2012 dated August 9, 2012. Both of these contain legal budget amendments.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Encumbrances lapse at year-end and are re-appropriated in the ensuing year's budget.

**CITY OF SANTA FE, TEXAS**  
**SCHEDULE OF FUNDING PROGRESS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SEPTEMBER 30, 2012**

**EXHIBIT 5**

The following is a summary of multi - year trend information regarding the funding progress of the retirement plan for the employees of the City of Santa Fe.

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (1)</u> | <u>Actuarial Liability (AAL) (2)</u> | <u>Funded Ratio (3)</u> | <u>Unfunded AAL (UAAL) (4)</u> | <u>Covered Payroll (5)</u> | <u>UAAL as a Percentage of Covered Payroll (6)</u> |
|---------------------------------|--------------------------------------|--------------------------------------|-------------------------|--------------------------------|----------------------------|--|
|                                 |                                      |                                      | (1) / (2)               | (2) - (1)                      |                            | (4) / (5)  |
| 12/03/05                        | \$ 2,057,691                         | \$ 3,546,038                         | 58.0%                   | \$1,488,347                    | \$1,984,448                | 75.0%  |
| 12/31/06                        | 2,436,608                            | 3,979,314                            | 61.2%                   | 1,542,706                      | 1,997,159                  | 77.2%  |
| 12/31/07                        | 2,799,348                            | 5,203,197                            | 53.8%                   | 2,403,849                      | 2,124,360                  | 113.2%   |
| 12/31/08                        | 3,286,283                            | 5,901,845                            | 55.7%                   | 2,615,562                      | 2,503,388                  | 104.5%   |
| 12/31/09                        | 3,751,559                            | 6,338,232                            | 59.2%                   | 2,586,673                      | 2,602,700                  | 99.4%  |
| 12/31/10 (A)                    | 4,737,129                            | 7,467,110                            | 63.4%                   | 2,729,981                      | 2,748,793                  | 99.3%  |
| 12/31/11                        | 5,444,722                            | 8,073,272                            | 67.4%                   | 2,628,550                      | 2,844,067                  | 92.4%  |

(A) Actuarial valuation performed under the new fund structure.

**OTHER SUPPLEMENTARY INFORMATION**

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CITY OF SANTA FE, TEXAS  
SCHEDULE OF TEMPORARY INVESTMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SCHEDULE 1

General Fund:  
Certificates of Deposit:

| <u>Certificate Numbers</u>  | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>September 30, 2012<br/>Balance</u> |
|-----------------------------|----------------------|----------------------|---------------------------------------|
| 41002940                    | 0.40%                | 07/13/13             | \$ 101,975                            |
| 41002941                    | 0.40%                | 07/13/13             | 101,975                               |
| 41002942                    | 0.40%                | 07/13/13             | 101,975                               |
| 41002943                    | 0.40%                | 07/13/13             | 101,975                               |
| 41002947                    | 0.55%                | 08/24/13             | 122,906                               |
| 41002948                    | 0.55%                | 08/24/13             | 122,906                               |
| 41002950                    | 0.55%                | 08/24/13             | <u>231,050</u>                        |
| Total temporary investments |                      |                      | <u>\$ 884,762</u>                     |

**CITY OF SANTA FE, TEXAS**  
**ANALYSIS OF TAXES RECEIVABLE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**SCHEDULE 2**

|   |    |               |                         |
|---|----|---------------|-------------------------|
| Taxes receivable - October 1  |    | \$            | 163,079                 |
| 2011 original tax assessment  | \$ | 1,670,082     |                         |
| Add (Deduct): Abatements and adjustments to tax rolls during the year |    | <u>26,617</u> | <u>1,696,699</u>        |
| <b>Total to be accounted for</b>                                      |    |               | <b>1,859,778</b>        |
| Less collections:   |    |               |                         |
| Current year  |    | 1,650,731     |                         |
| Prior years   |    | <u>34,984</u> |                         |
| <b>Total collections</b>  |    |               | <b><u>1,685,715</u></b> |
| Taxes receivable - September 30                                       |    |               | 174,063                 |
| Less allowance for uncollectible taxes                                |    |               | <u>(27,589)</u>         |
| <b>Net taxes receivable - September 30</b>                            |    | <b>\$</b>     | <b><u>146,474</u></b>   |

**Taxes receivable by years:**

|  |    |               |                          |
|--|----|---------------|--------------------------|
| 2011                                       | \$ | 50,286        |                          |
| 2010                                       |    | 26,381        |                          |
| 2009                                       |    | 17,154        |                          |
| 2008                                       |    | 13,414        |                          |
| 2007                                       |    | 9,979         |                          |
| 2006                                       |    | 8,150         |                          |
| 2005                                       |    | 5,669         |                          |
| 2004                                       |    | 6,251         |                          |
| 2003                                       |    | 5,080         |                          |
| 2002                                       |    | 4,503         |                          |
| 2001 and prior years                       |    | <u>27,196</u> | \$ 174,063               |
| Less allowance for uncollectible taxes     |    |               | <u>(27,589)</u>          |
| <b>Net taxes receivable - September 30</b> |    |               | <b>\$ <u>146,474</u></b> |

|  |    |             |
|--|----|-------------|
| Assessed valuation   | \$ | 587,047,125 |
| Percent of assessed valuation to the fair market value   |    | 100%        |
| Tax rate per \$100 valuation   |    | 0.3114      |
| Percent of the current year's taxes collected to the current taxes levied  |    | 98.84%      |
| Percent of the current and delinquent taxes collected to current and delinquent taxes outstanding at the beginning of the year |    | 90.64%      |

CITY OF SANTA FE, TEXAS  
 CITY COUNCIL, KEY ADMINISTRATIVE PERSONNEL AND LEGAL COUNSEL  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

SCHEDULE 3

| <u>Name, Address, and Term<br/>of Office, Elected-Expires</u>                       | <u>Annual Salary</u> | <u>Title</u>                 | <u>Resident<br/>of<br/>City</u> | <u>Relationship with Major<br/>Land Owners, Engineer,<br/>Attorney and Tax<br/>Assessor-Collector</u> |
|---|----------------------|------------------------------|---------------------------------|---|
| <b>Ralph Stenzel</b><br>5518 FM 646S<br>Santa Fe, Tx 77510<br>5/12 to 5/15          | \$0                  | Mayor                        | Yes                             | None  |
| <b>Pat McCrary</b><br>3409 Avenue J<br>Santa Fe, Tx 77510<br>5/10 to 5/13           | \$0                  | Mayor Pro-Tem                | Yes                             | None  |
| <b>Jeff Tambrella</b><br>12017 - 24th. Street<br>Santa Fe, Tx 77510<br>5/12 to 5/15 | \$0                  | Council Member               | Yes                             | None  |
| <b>Ronald "Bubba" Jannett</b><br>5136 Ave L<br>Santa Fe, Tx 77510<br>05/10 to 05/13 | \$0                  | Council Member               | Yes                             | None  |
| <b>Wanda Wagner</b><br>13530 Anne Lane<br>Santa Fe, Tx 77510<br>05/12 to 05/15      | \$0                  | Council Member               | Yes                             | None  |
| <b>Joe Carothers</b><br>4410 Castle Drive<br>Santa Fe, Tx 77510<br>05/10 to 05/13   | \$0                  | Council Member               | Yes                             | None  |
| <b>Joe Dickson</b><br>3807 Wade<br>Santa Fe, Tx 77510                               | \$100,202            | City Manager                 | Yes                             | None  |
| <b>Janet Davis</b><br>12835 24th St.<br>Santa Fe, Tx 77510                          | \$59,486             | City Secretary/Treasurer     | Yes                             | None  |
| <b>Ellis J. Ortego</b><br>606 Bayou Crest Dr.<br>Dickinson, Tx 77536                | \$24,000             | Prosecutor and City Attorney | No                              | None  |

## CITY OF SANTA FE, TEXAS

## SCHEDULE 4

## SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

## ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

## FOR THE YEAR ENDED SEPTEMBER 30, 2012

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|                                | September 30, 2012 |                | Variance -<br>Over (Under)<br>Budget | September 30, 2011 |                |
|--------------------------------|--------------------|----------------|--------------------------------------|--------------------|----------------|
|                                | Final Budget       | Actual         |                                      | Budget             | Actual         |
| <b>PRIMARY GOVERNMENT:</b>     |                    |                |                                      |                    |                |
| <b>GENERAL FUND</b>            |                    |                |                                      |                    |                |
| <b>Administration</b>          |                    |                |                                      |                    |                |
| Capital expenditures           |                    |                |                                      |                    |                |
| Furniture and office equipment | \$ -               | \$ -           | \$ -                                 | \$ -               | 1,326          |
| Instruments                    | 1,118              | 1,118          | -                                    | -                  | 1,077          |
| Buildings and structures       | -                  | -              | -                                    | -                  | -              |
| Motor vehicle                  | -                  | -              | -                                    | -                  | -              |
| Machinery, tools and equipment | -                  | -              | -                                    | -                  | -              |
| Land                           | -                  | -              | -                                    | -                  | -              |
| Capital outlay, capital lease  | -                  | -              | -                                    | -                  | -              |
| Insurance                      | 78,000             | 77,703         | (297)                                | -                  | 68,625         |
| Maintenance and repairs        | 6,600              | 4,385          | (2,215)                              | -                  | 4,288          |
| Personnel services             | 355,211            | 354,028        | (1,183)                              | -                  | 342,273        |
| Special services               | 132,051            | 127,433        | (4,618)                              | -                  | 80,857         |
| Supplies and materials         | 7,900              | 6,209          | (1,691)                              | -                  | 7,883          |
| Utilities                      | 8,300              | 7,593          | (707)                                | -                  | 8,199          |
| Compensated absences           | -                  | -              | -                                    | -                  | -              |
| Contingency fund               | -                  | -              | -                                    | -                  | -              |
| Total                          | <u>589,180</u>     | <u>578,469</u> | <u>(10,711)</u>                      | <u>-</u>           | <u>514,528</u> |
| <b>Tax</b>                     |                    |                |                                      |                    |                |
| Capital expenditures           |                    |                |                                      |                    |                |
| Furniture and office equipment | -                  | -              | -                                    | -                  | -              |
| Maintenance and repairs        | -                  | -              | -                                    | -                  | -              |
| Personnel services             | -                  | -              | -                                    | -                  | -              |
| Special services               | 15,856             | 13,301         | (2,555)                              | -                  | 14,233         |
| Supplies and materials         | -                  | -              | -                                    | -                  | -              |
| Utilities                      | -                  | -              | -                                    | -                  | -              |
| Total                          | <u>15,856</u>      | <u>13,301</u>  | <u>(2,555)</u>                       | <u>-</u>           | <u>14,233</u>  |
| <b>Community Services</b>      |                    |                |                                      |                    |                |
| Capital expenditures           |                    |                |                                      |                    |                |
| Furniture and office equipment | 5,000              | 4,409          | (591)                                | -                  | -              |
| Instruments                    | -                  | -              | -                                    | -                  | -              |
| Buildings and structures       | -                  | -              | -                                    | -                  | -              |
| Capital outlay, capital lease  | -                  | -              | -                                    | -                  | -              |
| Maintenance and repairs        | 4,700              | 4,037          | (663)                                | -                  | 4,330          |
| Personnel services             | 231,192            | 229,526        | (1,666)                              | -                  | 223,447        |
| Special services               | 23,925             | 21,268         | (2,657)                              | -                  | 29,736         |
| Supplies and materials         | 7,450              | 6,994          | (456)                                | -                  | 6,731          |
| Utilities                      | 8,010              | 6,979          | (1,031)                              | -                  | 7,599          |
| Compensated absences           | -                  | -              | -                                    | -                  | -              |
| Total                          | <u>280,277</u>     | <u>273,213</u> | <u>(7,064)</u>                       | <u>-</u>           | <u>271,843</u> |

(Continued)

## CITY OF SANTA FE, TEXAS

## SCHEDULE 4

## SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

## ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|                                 | September 30, 2012 |                  | Variance -<br>Over (Under)<br>Budget | September 30, 2011<br>Actual |
|---------------------------------|--------------------|------------------|--------------------------------------|------------------------------|
|                                 | Final Budget       | Actual           |                                      |                              |
| <b>PRIMARY GOVERNMENT:</b>      |                    |                  |                                      |                              |
| <b>GENERAL FUND (Continued)</b> |                    |                  |                                      |                              |
| <b>Judicial</b>                 |                    |                  |                                      |                              |
| Capital expenditures            |                    |                  |                                      |                              |
| Furniture and office equipment  | \$ 11,187          | \$ 11,187        | \$ -                                 | \$ 11,187                    |
| Instruments                     | 3,500              | 7,290            | 3,790                                |                              |
| Machinery, tools, and equipment | -                  | -                | -                                    |                              |
| Capital outlay, capital lease   | -                  | -                | -                                    | 28,103                       |
| Motor vehicles                  | -                  | -                | -                                    | 8,079                        |
| Maintenance and repairs         | 5,300              | 3,161            | (2,139)                              | 4,190                        |
| Personnel services              | 200,268            | 198,050          | (2,218)                              | 196,608                      |
| Special services                | 44,215             | 39,576           | (4,639)                              | 42,763                       |
| Supplies and materials          | 19,408             | 20,928           | 1,520                                | 13,399                       |
| Utilities                       | 3,000              | 2,394            | (606)                                | 2,631                        |
| Compensated absences            | -                  | -                | -                                    | -                            |
| Total                           | <u>286,878</u>     | <u>282,586</u>   | <u>(4,292)</u>                       | <u>306,960</u>               |
| <b>Police</b>                   |                    |                  |                                      |                              |
| Capital expenditures            |                    |                  |                                      |                              |
| Furniture and office equipment  | 19,725             | 19,221           | (504)                                | 8,456                        |
| Instruments                     | 25,783             | 25,657           | (126)                                | 10,758                       |
| Machinery, tools and equipment  | -                  | -                | -                                    | -                            |
| Motor vehicle - patrol cars     | 71,841             | 71,841           | -                                    | 54,191                       |
| Seized/Awarded vehicle          | 3,124              | 3,124            | -                                    | -                            |
| Capital lease equipment         | -                  | -                | -                                    | -                            |
| Capital outlay, capital lease   | 111,666            | 111,666          | -                                    | 173,570                      |
| Maintenance and repairs         | 49,505             | 46,003           | (3,502)                              | 41,433                       |
| Personnel services              | 1,860,477          | 1,796,379        | (64,098)                             | 1,750,441                    |
| Special services                | 39,200             | 34,657           | (4,543)                              | 21,175                       |
| Supplies and materials          | 153,473            | 146,786          | (6,687)                              | 103,185                      |
| Utilities                       | 25,875             | 22,474           | (3,401)                              | 23,251                       |
| Compensated absences            | -                  | -                | -                                    | -                            |
| Total                           | <u>2,360,669</u>   | <u>2,277,808</u> | <u>(82,861)</u>                      | <u>2,186,460</u>             |
| <b>Fire Marshal</b>             |                    |                  |                                      |                              |
| Capital expenditures            |                    |                  |                                      |                              |
| Furniture and office equipment  | -                  | -                | -                                    | -                            |
| Instruments                     | -                  | -                | -                                    | -                            |
| Buildings and structures        | -                  | -                | -                                    | -                            |
| Maintenance and repairs         | 1,700              | 1,294            | (406)                                | 1,134                        |
| Personnel services              | 7,737              | 7,740            | 3                                    | 7,449                        |
| Special services                | 500                | 342              | (158)                                | 292                          |
| Supplies and materials          | 2,950              | 3,107            | 157                                  | 2,384                        |
| Utilities                       | 600                | 715              | 115                                  | 594                          |
| Total                           | <u>13,487</u>      | <u>13,198</u>    | <u>(289)</u>                         | <u>11,853</u>                |

(Continued)

## CITY OF SANTA FE, TEXAS

## SCHEDULE 4

## SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

## ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

## FOR THE YEAR ENDED SEPTEMBER 30, 2012

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|   | September 30, 2012 |           | Variance -<br>Over (Under)<br>Budget | September 30, 2011 |  |
|---|--------------------|-----------|--------------------------------------|--------------------|--|
|   | Final Budget       | Actual    |                                      | Actual             |  |
| <b>PRIMARY GOVERNMENT:</b>              |                    |           |                                      |                    |  |
| <b>GENERAL FUND (Continued)</b>         |                    |           |                                      |                    |  |
| <b>Public Safety</b>                    |                    |           |                                      |                    |  |
| Special services                        | \$ 67,063          | \$ 66,459 | \$ (604)                             | \$ 53,108          |  |
| Utilities                               | -                  | -         | -                                    | -                  |  |
| Personnel services                      | -                  | -         | -                                    | -                  |  |
| Supplies and materials                  | 800                | -         | (800)                                | -                  |  |
| Total                                   | 67,863             | 66,459    | (1,404)                              | 53,108             |  |
| <b>Library</b>                          |                    |           |                                      |                    |  |
| Capital expenditures                    |                    |           |                                      |                    |  |
| Furniture and office equipment          | -                  | -         | -                                    | 2,142              |  |
| Instruments                             | -                  | -         | -                                    | -                  |  |
| Buildings and structures                | -                  | -         | -                                    | -                  |  |
| Machinery, tools and equipment          | 8,444              | 8,444     | -                                    | 8,138              |  |
| Capital outlay, capital lease           | -                  | -         | -                                    | -                  |  |
| Maintenance and repairs                 | 4,600              | 2,865     | (1,735)                              | 3,301              |  |
| Personnel services                      | 149,450            | 149,033   | (417)                                | 144,609            |  |
| Special services                        | 7,710              | 6,437     | (1,273)                              | 12,815             |  |
| Supplies and materials                  | 16,740             | 16,011    | (729)                                | 18,129             |  |
| Utilities                               | 12,700             | 11,446    | (1,254)                              | 12,083             |  |
| Compensated absences                    | -                  | -         | -                                    | -                  |  |
| Total                                   | 199,644            | 194,236   | (5,408)                              | 201,217            |  |
| <b>Streets</b>                          |                    |           |                                      |                    |  |
| Capital expenditures                    |                    |           |                                      |                    |  |
| Furniture and office equipment          | -                  | -         | -                                    | -                  |  |
| Buildings and structures                | 20,670             | 20,670    | -                                    | 20,670             |  |
| Machinery, tools and equipment          | -                  | -         | -                                    | -                  |  |
| Motor vehicles - other                  | 21,423             | 20,658    | (765)                                | -                  |  |
| Motor vehicles - gradall                | -                  | -         | -                                    | -                  |  |
| Motor vehicles - dump trucks            | -                  | -         | -                                    | 19,213             |  |
| Motor vehicles - slope mower            | 22,754             | 22,754    | -                                    | 21,931             |  |
| Motor vehicles - pick up                | 6,000              | 5,463     | (537)                                | -                  |  |
| Street improvements                     | 150,000            | 153,890   | 3,890                                | 173,528            |  |
| Streets infrastructure - contributions  | -                  | -         | -                                    | 536,004            |  |
| Drainage infrastructure - contributions | -                  | -         | -                                    | -                  |  |
| Capital outlay, capital lease           | 76,889             | 76,889    | -                                    | 60,533             |  |
| Maintenance and repairs                 | 71,100             | 65,091    | (6,009)                              | 77,438             |  |
| Personnel services                      | 439,276            | 441,216   | 1,940                                | 418,213            |  |
| Special services                        | 2,450              | 1,089     | (1,361)                              | 4,254              |  |
| Supplies and materials                  | 71,277             | 70,032    | (1,245)                              | 62,682             |  |
| Utilities                               | 41,900             | 37,316    | (4,584)                              | 37,924             |  |
| Compensated absences                    | -                  | -         | -                                    | -                  |  |
| Total                                   | 923,739            | 915,068   | (8,671)                              | 1,432,390          |  |

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|   | September 30, 2012 |               | Variance -<br>Over (Under)<br>Budget | September 30, 2011<br>Actual |
|---|--------------------|---------------|--------------------------------------|------------------------------|
|   | Final Budget       | Actual        |                                      |                              |
| <b>PRIMARY GOVERNMENT:</b>  |                    |               |                                      |                              |
| <b>GENERAL FUND (Continued)</b>   |                    |               |                                      |                              |
| <b>Parks</b>  |                    |               |                                      |                              |
| Capital expenditures  |                    |               |                                      |                              |
| Buildings and structures  | \$ 10,000          | \$ -          | \$ (10,000)                          | \$ -                         |
| Motor vehicles  | -                  | -             | -                                    | -                            |
| Tractors/mowers   | 5,022              | 5,022         | -                                    | 4,840                        |
| Capital outlay, capital lease   | -                  | -             | -                                    | -                            |
| Maintenance and repairs   | 5,325              | 4,605         | (720)                                | 5,442                        |
| Personnel services  | 35,381             | 34,586        | (795)                                | 55,484                       |
| Special services  | 735                | 401           | (334)                                | 691                          |
| Supplies and materials  | 19,900             | 16,103        | (3,797)                              | 33,413                       |
| Utilities   | 1,050              | 1,040         | (10)                                 | 1,102                        |
| Compensated absences  | -                  | -             | -                                    | -                            |
| Total   | <u>77,413</u>      | <u>61,757</u> | <u>(15,656)</u>                      | <u>100,972</u>               |
| <b>Special Projects</b>   |                    |               |                                      |                              |
| Special services  | -                  | -             | -                                    | -                            |
| Supplies and materials  | -                  | -             | -                                    | -                            |
| Total   | <u>-</u>           | <u>-</u>      | <u>-</u>                             | <u>-</u>                     |
| <b>Community Center</b>   |                    |               |                                      |                              |
| Capital expenditures  |                    |               |                                      |                              |
| Furniture and office equipment  | -                  | -             | -                                    | -                            |
| Buildings and structures  | -                  | -             | -                                    | -                            |
| Machinery, tools and equipment  | 2,790              | 2,790         | -                                    | -                            |
| Maintenance and repairs   | 4,400              | 3,922         | (478)                                | 3,838                        |
| Personnel services  | 3,300              | 3,240         | (60)                                 | 3,120                        |
| Special services  | 300                | -             | (300)                                | 303                          |
| Supplies and materials  | 1,200              | 1,164         | (36)                                 | 1,401                        |
| Utilities   | 9,175              | 9,503         | 328                                  | 9,591                        |
| Total   | <u>21,165</u>      | <u>20,619</u> | <u>(546)</u>                         | <u>18,253</u>                |
| <b>Texas Community Development Block<br/>Grant - Disaster Recovery Grant<br/>Program; Contract #GLO10-5184-000-5167 -<br/>Round 1</b> |                    |               |                                      |                              |
| Water facilities  | -                  | -             | -                                    | -                            |
| Sewer facilities  | -                  | -             | -                                    | -                            |
| Engineering   | -                  | -             | -                                    | -                            |
| Planning/Project delivery   | -                  | -             | -                                    | -                            |
| Total   | <u>-</u>           | <u>-</u>      | <u>-</u>                             | <u>-</u>                     |

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|  | September 30, 2012 |                  | Variance -          | September 30, 2011 |
|--|--------------------|------------------|---------------------|--------------------|
|  | Final Budget       | Actual           | Over (Under) Budget | Actual             |
| <b>PRIMARY GOVERNMENT:</b>   |                    |                  |                     |                    |
| <b>GENERAL FUND (Continued)</b>  |                    |                  |                     |                    |
| <b>Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #GLO12-228-000-5529 - Round 2.1</b>   |                    |                  |                     |                    |
| Sewer facilities   | \$ -               | \$ -             | \$ -                | \$ -               |
| Engineering/Architectural Services   | -                  | -                | -                   | -                  |
| Planning/Project delivery  | -                  | -                | -                   | -                  |
| <b>Total</b>   | <b>-</b>           | <b>-</b>         | <b>-</b>            | <b>-</b>           |
| <b>Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #GLO13-078-000-7101 - Round 2.2</b>   |                    |                  |                     |                    |
| Water facilities   | -                  | -                | -                   | -                  |
| Sewer facilities   | -                  | -                | -                   | -                  |
| Engineering/Architectural Services   | -                  | -                | -                   | -                  |
| Project delivery   | -                  | -                | -                   | -                  |
| Environmental  | -                  | -                | -                   | -                  |
| <b>Total</b>   | <b>-</b>           | <b>-</b>         | <b>-</b>            | <b>-</b>           |
| <b>Texas Comptroller of Public Accounts (CPA); Energy Efficiency &amp; Conservation Block Grant (EECBG) Program; American Recovery &amp; Reinvestment Act (ARRA); Contract #CS0362</b> |                    |                  |                     |                    |
| Administration/Consultant  | -                  | -                | -                   | -                  |
| Subcontractor  | -                  | -                | -                   | -                  |
| <b>Total</b>   | <b>-</b>           | <b>-</b>         | <b>-</b>            | <b>-</b>           |
| <b>TOTAL - GENERAL FUND</b>  | <b>4,836,171</b>   | <b>4,696,714</b> | <b>(139,457)</b>    | <b>5,111,817</b>   |
| <b>SPECIAL REVENUE FUND</b>  |                    |                  |                     |                    |
| <b>Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #GLO10-5184-000-5167 - Round 1</b>  |                    |                  |                     |                    |
| Water facilities   | 324,977            | 250,733          | (74,244)            | 906,636            |
| Sewer facilities   | 324,977            | -                | (324,977)           | 219,863            |
| Engineering  | 57,749             | 71,468           | 13,719              | 157,309            |
| Planning/Project delivery  | 29,150             | 11,660           | (17,490)            | 75,788             |
| <b>Total</b>   | <b>736,853</b>     | <b>333,861</b>   | <b>(402,992)</b>    | <b>1,359,596</b>   |

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|  | September 30, 2012 |                  | Variance -<br>Over (Under)<br>Budget | September 30, 2011<br>Actual |
|--|--------------------|------------------|--------------------------------------|------------------------------|
|  | Final Budget       | Actual           |                                      |                              |
| <b>PRIMARY GOVERNMENT:</b>   |                    |                  |                                      |                              |
| <b>SPECIAL REVENUE FUND (Continued)</b>  |                    |                  |                                      |                              |
| <b>Texas Community Development Block<br/>Grant - Disaster Recovery Grant<br/>Program; Contract #GLO12-228-000-5529 -<br/>Round 2.1</b>   |                    |                  |                                      |                              |
| Sewer facilities   | \$ 618,645         | \$ 449,727       | \$ (168,918)                         | \$ -                         |
| Engineering/Architectural Services   | 87,850             | 38,939           | (48,911)                             | -                            |
| Planning/Project delivery  | 72,745             | 20,736           | (52,009)                             | -                            |
| <b>Total</b>   | <b>779,240</b>     | <b>509,402</b>   | <b>(269,838)</b>                     | <b>-</b>                     |
| <b>Texas Community Development Block<br/>Grant - Disaster Recovery Grant<br/>Program; Contract #GLO13-078-000-7101 -<br/>Round 2.2</b>   |                    |                  |                                      |                              |
| Water facilities   | -                  | -                | -                                    | -                            |
| Sewer facilities   | -                  | -                | -                                    | -                            |
| Engineering/Architectural Services   | -                  | -                | -                                    | -                            |
| Project delivery   | -                  | -                | -                                    | -                            |
| Environmental  | -                  | -                | -                                    | -                            |
| <b>Total</b>   | <b>-</b>           | <b>-</b>         | <b>-</b>                             | <b>-</b>                     |
| <b>Texas Comptroller of Public Accounts<br/>(CPA); Energy Efficiency &amp; Conservation<br/>Block Grant (EECBG) Program; American<br/>Recovery &amp; Reinvestment Act (ARRA);<br/>Contract #CS0362</b> |                    |                  |                                      |                              |
| Administration/Consultant  | -                  | -                | -                                    | 1,500                        |
| Subcontractor  | 39,379             | 39,379           | -                                    | -                            |
| <b>Total</b>   | <b>39,379</b>      | <b>39,379</b>    | <b>-</b>                             | <b>1,500</b>                 |
| <b>TOTAL - SPECIAL REVENUE FUND</b>  | <b>1,555,472</b>   | <b>882,642</b>   | <b>(672,830)</b>                     | <b>1,361,096</b>             |
| <b>Total Expenditures - Primary Government<br/>All Funds and Departments</b>   | <b>6,391,643</b>   | <b>5,579,356</b> | <b>(812,287)</b>                     | <b>6,472,913</b>             |

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2011

|  | September 30, 2012  |                     | Variance -<br>Over (Under)<br>Budget | September 30, 2011  |        |
|--|---------------------|---------------------|--------------------------------------|---------------------|--------|
|  | Final Budget        | Actual              |                                      | Budget              | Actual |
| <b>COMPONENT UNIT:</b>                       |                     |                     |                                      |                     |        |
| <b>GENERAL FUND</b>                          |                     |                     |                                      |                     |        |
| <b>Administration</b>                        |                     |                     |                                      |                     |        |
| Capital expenditures                         |                     |                     |                                      |                     |        |
| Infrastructure improvements                  | \$ 38,955           | \$ 38,955           | \$ -                                 | \$ 322,805          |        |
| Personnel services                           | 16,000              | 15,000              | (1,000)                              | 15,350              |        |
| Special services                             | 756,515             | 754,215             | (2,300)                              | 408,266             |        |
| Supplies and materials                       | 700                 | 438                 | (262)                                | 423                 |        |
| Total  | <u>812,170</u>      | <u>808,608</u>      | <u>(3,562)</u>                       | <u>746,844</u>      |        |
| <b>Total Expenditures - Component Unit</b>   |                     |                     |                                      |                     |        |
| <b>All Funds and Departments</b>             | <u>812,170</u>      | <u>808,608</u>      | <u>(3,562)</u>                       | <u>746,844</u>      |        |
| <b>Total Expenditures - Reporting Entity</b> |                     |                     |                                      |                     |        |
| <b>All Funds and Departments</b>             | <u>\$ 7,203,813</u> | <u>\$ 6,387,964</u> | <u>\$ (815,849)</u>                  | <u>\$ 7,219,757</u> |        |

**FEDERAL AWARDS SECTION**

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Mary I. Cambiano, CPA  
John N. Cambiano, CPA

Members American Institute of Certified Public  
Accountants and Texas Society of  
Certified Public Accountants

**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**

The Honorable Mayor and  
Members of the City Council  
City of Santa Fe  
Santa Fe, Texas

We have audited the financial statements of the governmental activities and each major fund of the City of Santa Fe, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Santa Fe Section 4B Economic Development Corporation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Cambiano & Cambiano, P.C.  
Santa Fe, Texas

June 12, 2013



**CAMBIANO & CAMBIANO, P.C., CPA'S**

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Accountants and Texas Society of  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and  
Members of the City Council  
City of Santa Fe  
Santa Fe, Texas

**Compliance**

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

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

## Internal Control over Compliance

Management of the City of Santa Fe is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

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



Cambiano & Cambiano, P.C.  
Santa Fe, Texas

June 12, 2013

**CITY OF SANTA FE, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

| <u>Federal Grantor/Pass-through Grantor/Program Title</u>  | <u>Federal CFDA Number</u> | <u>Pass-through Entity Identifying Number</u>                           | <u>Federal Expenditures</u> |
|--|----------------------------|---|-----------------------------|
| <b>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>   |                            |   |                             |
| Passed Through Texas General Land Office (GLO);<br>Community Development Block Grant - Disaster<br>Recovery Program (Hurricane Ike), Round 1   | 14.228                     | Contract #GLO10-5184-000-5167<br>(Formerly TDRA<br>Contract #DRS010168) | \$ 333,861                  |
| Passed Through Texas General Land Office (GLO);<br>Community Development Block Grant - Disaster<br>Recovery Program (Hurricane Ike), Round 2.1 | 14.228                     | Contract #GLO12-228-000-5529  | 509,402                     |
| Passed Through Texas General Land Office (GLO);<br>Community Development Block Grant - Disaster<br>Recovery Program (Hurricane Ike), Round 2.2 | 14.228                     | Contract #GLO13-078-000-7101  | <u>-</u>                    |
| <b>TOTAL UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>   |                            |   | <u>843,263</u>              |
| <b>"ARRA" - UNITED STATES DEPARTMENT OF ENERGY</b>   |                            |   |                             |
| Passed Through Texas Comptroller of<br>Public Accounts (CPA); Energy Efficiency and<br>Conservation Block Grant (EECBG) Program                | 81.128                     | Federal grant award<br>#DE-EE0000893; State<br>Contract #CS0362         | <u>39,379</u>               |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>  |                            |   | <u>\$ 882,642</u>           |

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the City of Santa Fe, Texas under programs of the federal government for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of the City of Santa Fe, it is not intended to and does not present the financial position or changes in net assets of the City. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City accounts for awards under federal programs in the General and Special Revenue Funds. All federal grant resources restricted to, or designated for specific purposes by the grantor are accounted for in the Special Revenue Fund and the City's local match in the General Fund.

**CITY OF SANTA FE, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2012**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

- 1. Type of Auditor's Report issued: Unqualified
- 2. Internal control over financial reporting:
  - Material weakness(es) identified? \_\_\_ Yes X No
  - Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_ Yes X None Reported
- 3. Noncompliance material to the financial statements noted? \_\_\_ Yes X No

**Federal Awards**

- 4. Internal control over major programs:
  - Material weakness(es) identified? \_\_\_ Yes X No
  - Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_ Yes X None Reported
- 5. Type of Auditor's Report issued on compliance for major programs: Unqualified
- 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_ Yes X No

7. Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u>   |
|--------------------|--|
| 14.228             | United States Department of Housing and Urban Development; Community Development Block Grant, Disaster Recovery Program (Hurricane Ike); Round 2.1 |
| 81.128             | "ARRA" - United States Department of Energy; Energy Efficiency and Conservation Block Grant (EECBG) Program  |

- 8. Dollar threshold used to distinguish between type A and type B programs: \$300,000
- 9. Auditee qualified as low-risk auditee? \_\_\_ Yes X No

**II. BASIC FINANCIAL STATEMENT FINDINGS**

None Reported.

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

The audit disclosed no findings or questioned costs required to be reported.

**IV. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

| <u>Finding #</u> | <u>Corrective Action Taken</u> |
|------------------|--------------------------------|
| None Reported.   |                                |

**CITY OF SANTA FE, TEXAS**  
***CORRECTIVE ACTION PLAN***  
***FOR THE YEAR ENDED SEPTEMBER 30, 2012***

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**Corrective Action Plan**

**Not Applicable**