

CITY OF SANTA FE, Texas
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

CITY OF SANTA FE, TEXAS
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

TABLE OF CONTENTS

	<u>Page</u>
Introductory Section:	
List of Elected and Appointed Officials	1
Financial Section:	
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Basic Financial Statements:	<u>Statement</u>
	<i>Government-wide Financial Statements</i>
Statement of Net Assets	1 15
Statement of Activities	2 16
	<i>Fund Financial Statements</i>
	<i>Governmental Funds</i>
Balance Sheet	3 18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	4 20
Statement of Revenues, Expenditures and Changes in Fund Balances	5 21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	6 25
Notes to Basic Financial Statements	26
Required Supplementary Information:	<u>Exhibit</u>
Schedule of Revenues Expenditures and Changes in Fund Balance - Budget and Actual:	
General Fund	1 55
Special Revenue Funds:	
HOME Investment Partnerships Program	2 57
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	3 58
Texas Community Development Block Grant (TxCDBG) - Disaster Recovery Grant Program; Contract #DRS010168 - Round 1	4 59
Notes to Required Supplementary Information	60
Schedule of Funding Progress - Texas Municipal Retirement System	5 61
Other Supplementary Information:	<u>Schedule</u>
Schedule of Temporary Investments	1 62
Analysis of Taxes Receivable	2 63
City Council, Key Administrative Personnel and Legal Council	3 64
Schedule of Expenditures Compared to Budget	4 65
Government Auditing Standards Report:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	72

INTRODUCTORY SECTION

**CITY OF SANTA FE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

CITY COUNCIL

Ralph Stenzel	Mayor
Joe Carothers	Mayor Pro-Tem
Jeff Tambrella	Council Member
Pat McCrary	Council Member
Jim Abney	Council Member
Ronald "Bubba" Jannett	Council Member

Joe Dickson	City Manager
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Janet Davis	City Secretary/Treasurer
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FINANCIAL SECTION



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Members American Institute of Certified Public
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, 2010, 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.

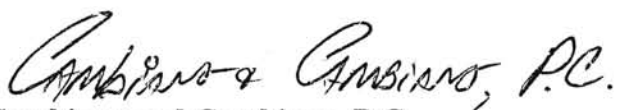
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2010, 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 July 28, 2011 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.

The Management's Discussion and Analysis on pages 4 through 14, budgetary comparison information on pages 55 through 60, and the schedule of funding progress on page 61, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary financial information included on pages 62 through 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. They have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

July 28, 2011

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

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, 2010. 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, 2010 by \$20,309,190 (net assets). Of this amount, \$1,006,356 (unrestricted net assets) may be used to meet the government's ongoing obligations in accordance with the City's fund designation and fiscal policies, \$284,623 is for restricted uses, and \$19,018,211 are capital assets, net of related debt.
- The City's total net assets decreased by \$461,057 compared to a decrease of \$197,393 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 \$1,617,128, a decrease of \$548,550 from the prior year. Of this amount, \$1,331,932 is available for use at the City's discretion.
- The City's total capital lease debt decreased by a net of \$48,679 during the current fiscal year due to the incurring of new debt of \$207,653 less principal payments of \$256,332.

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, 2010**

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, 2010**

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 25 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 26 through 54.

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 55 through 61 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 62 through 71 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 \$20,309,190 at the close of the current fiscal year.

As shown in Table 1, as of September 30, 2010, the largest portion of the City's net assets (93.6%) 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, 2010**

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 2,572,426	\$ 3,327,594
Capital assets	19,193,095	18,983,634
Total Assets	<u>21,765,521</u>	<u>22,311,228</u>
Current and other liabilities	785,356	1,053,476
Long-term liabilities	670,975	491,160
Total Liabilities	<u>1,456,331</u>	<u>1,544,636</u>
Net Assets:		
Invested in capital assets, net of related debt	19,018,211	18,792,642
Restricted	284,623	203,616
Unrestricted	1,006,356	1,770,334
Total Net Assets	<u>\$ 20,309,190</u>	<u>\$20,766,592</u>

Governmental type activities decreased the City's net assets by \$461,057 during the current fiscal year. The following table provides a summary of the City's operations for the year ended September 30, 2010.

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2010**

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Revenues:		
Program revenues:		
Charges for services	\$ 499,323	\$ 535,696
Operating grants and contributions	452,462	1,894,676
Capital grants and contributions	328,186	169,368
General revenues:		
Property taxes	1,549,686	1,345,286
Sales tax	1,323,135	1,467,576
Franchise tax and contract fees	676,284	665,148
Investment earnings	6,319	23,146
Penalties and interest on property taxes	21,461	30,881
Gain (loss) on sale of capital assets	(38,145)	(4,153)
Other	13,482	21,218
<u>Total Revenues</u>	<u>4,832,193</u>	<u>6,148,842</u>
Expenses:		
General government administration	556,082	520,667
Tax	13,380	14,321
Community service	272,550	261,293
Judicial/Police	2,356,463	2,073,017
Fire marshal	15,288	12,498
Public safety	53,598	1,183,226
Library	208,000	199,986
Streets	1,309,053	1,295,095
Parks	87,827	80,271
Community center	23,232	25,479
Interest on long-term debt	8,698	13,593
Interest on short-term borrowings	-	14,506
Home Investment Partnerships Program	-	204,509
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program	-	257,265
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	194,998	190,509
Texas Community Development Block Grant (TxCDBG); Disaster Recovery Grant Program; Contract #DRS010168 - Round 1	194,081	-
<u>Total Expenses</u>	<u>5,293,250</u>	<u>6,346,235</u>
Increase(decrease) in net assets	(461,057)	(197,393)
Net assets at beginning of year, as restated (See Note 10)	20,770,247	20,963,985
Net assets at end of year	<u>\$ 20,309,190</u>	<u>\$ 20,766,592</u>

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2010**

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

- Program revenues of \$1,279,971 equaled 24.2% of government expenses of \$5,293,250. As expected, general revenues (\$3,552,222) provided the required support and coverage for expenses. Property taxes, sales tax, and franchise and contract fees provided a majority of the general revenues.
- Almost one-half of the expenses are judicial/police (\$2,356,463), while this category provided about 6.5% of the total revenues of \$4,832,193. The majority of the expenses in this category were incurred for salary and benefits (\$1,961,228) and supplies and materials (\$114,916).
- The next largest category of expenses is streets (\$1,309,053) at 24.7%. The more significant expenses in this category are related to salary and benefits (\$422,341), maintenance and repairs (\$74,534), and depreciation (\$714,940).
- Public safety expenses were \$53,598, a decrease of \$1,129,628 over the prior year. The decrease was a result of special services contracts not needed as a result of Hurricane Ike in September, 2008.
- 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 \$1,617,128, a decrease of \$548,550 in comparison with the prior year. Approximately 82% of this amount (\$1,331,932) 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 (\$265,942), library expansion (\$18,315), park development (\$281), and encumbrances (\$658).

The fund balance of the City's General Fund decreased by \$548,550 during the current fiscal year. Key factors are as follows:

CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2010

- \$876,454 in expenditures over revenues – revenues were \$94,911 more than in the prior year. A majority of this increase was a result of an increase in property tax revenues of \$223,164 and a decrease in sales tax revenues of \$144,441. Franchise and contract fees, licenses and permits, and intergovernmental revenues generated slightly more income than the prior year. Municipal fines and cash bonds forfeits, interest income, and other revenues generated less revenue than the prior year. Expenditures were \$990,839 more than the prior year. Significant expenditure increases were related to general government administration (\$54,873), judicial/police (\$262,106), streets (\$35,296), and capital outlay (\$737,933).
- \$327,904 in other financing sources – this resulted from an on-line public auction that generated \$64,811 from the sale of old declared surplus property and \$263,093 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 decrease in the revenue budget of \$234,006. Some of the significant budget decreases resulted from sales tax (\$261,000), municipal fines and cash bonds (\$100,070), and interest income (\$29,000). Budget increases were related to franchise and contract fees (\$3,877), licenses and permits (\$86,095), intergovernmental revenues (\$14,344), other revenues (\$11,007), and Texas Department of Rural Affairs Community Development Block Grant Supplemental Fund Program (\$40,741).
- The other financing sources had a net increase of \$974,271. This increase is attributed to an increase in capital lease contracts (\$265,716), proceeds from the sale of capital assets as Council decided to sell old surplus property (\$41,767), and an increase in the amount of appropriated fund balance to be used (\$666,788).
- A net increase in the budget for expenditures of \$712,443. Some of the significant increases can be summarized as follows:

General government administration – an increase of \$46,735: This increase was a result of additional funds needed to cover an increase in windstorm insurance premiums (\$7,000), unemployment taxes (\$6,000), accounting services (\$7,000), a facility design consultant (\$12,000), and special election expenses (\$8,675).

Capital expenditures – an increase of \$608,586. Most of the increase was a result of land purchased on FM 646 (\$324,500), Council approval to purchase capital

CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2010

assets with capital lease proceeds (\$257,013), and a police vehicle purchased with seized funds (\$11,872).

Debt service – principal retirement – a net increase of \$12,564. An increase was needed to make additional principal payment on the dump truck purchased in 2008-09 year but not received until 2009-10 year (\$19,213), and a decrease in the cost of a slope mower (\$5,232).

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

- Actual General Fund Revenues of \$4,540,243 exceeded budgeted revenues of \$4,121,940 by \$418,303. Actual revenues exceeding the final budget were generated by additional property taxes (\$18,671), sales tax (\$48,135), municipal fines and cash bond forfeits (\$23,386), intergovernmental revenues (\$275,659), and other revenues (\$49,023). The majority of the intergovernmental revenues were in the form of street contributions from the County of Galveston (\$272,271). Other revenues resulted from street contributions from developers within the City (\$45,000). The actual other financing sources of \$327,904 were less than the budgeted amount of \$1,159,232 by \$831,328. A majority of the actual to final budget difference was made up of \$851,749 of appropriated fund balance not needed.
- Actual expenditures of \$5,416,697 were more than final budgeted expenditures of \$5,253,350 by \$163,347. Actual expenditures were less than the final budgeted expenditures in the general government administration (\$20,146), community services (\$15,081), judicial/police (\$52,801), library (\$16,314), streets (\$36,678), and parks (\$24,683). Actual capital expenditures were more than the final budget by \$333,258. A majority of this difference was related to street infrastructure expenditures (\$317,271). These street infrastructures were in the form of contributions from the County of Galveston (\$272,271) and developers within the City (\$45,000).
- Final budgeted amounts projected an increase in fund balance of \$27,822. The actual net change in fund balance was a decrease of \$548,550.

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, 2010, amounts to \$19,193,096, 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, 2010

Table 3 - Capital Assets

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 574,548	\$ 250,048
Buildings	681,068	681,068
Building improvements	222,912	222,912
Computers	257,479	266,732
Equipment	1,117,009	1,106,703
Furniture and fixtures	12,464	11,164
Improvements (other than buildings)	92,099	72,314
Infrastructure	26,480,667	26,435,667
Infrastructure improvements	3,431,231	2,960,193
Radios	47,261	44,061
Vehicles	705,118	759,194
Total Capital Assets	33,621,856	32,810,056
Less: Accumulated depreciation	(14,428,760)	(13,826,422)
Total capital assets, net of depreciation	<u>\$ 19,193,096</u>	<u>\$ 18,983,634</u>

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

- The General Fund purchased capital assets during the 2009-2010 fiscal year amounting to \$1,175,844. The more significant purchases were infrastructure street improvements (\$198,767), police department motor vehicles (\$94,668), 2010 John Deere Tractor with boom mower (\$65,149), 2008 tractor/mower with front end loader (\$14,379), library air condition units (\$24,177), microphone system (\$3,200), FM 646 land (\$324,500), and basketball court at Tambrella Park (\$19,785).
- The City also received \$328,186 in capital asset contributions. Street improvements were contributed to the City from subdivision developers (\$45,000) and County of Galveston (\$272,271). A seized vehicle valued at \$10,915 was awarded to the police department by the courts.

Additional information on the City of Santa Fe's capital assets can be found in Note 4 on pages 36 through 37 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 \$775,794 at September 30, 2010. The total amount was in governmental activities. The capital lease obligations decreased \$48,679 in the year ending September 30, 2010. This was a net result of new financing of \$207,653 and principal debt

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2010**

payments of \$256,332. The compensated absences had a net increase of \$68,315. The City has not been able to contribute the full retirement rate for the fiscal year end 2009 and 2010. This created an actual contribution that was less than the actuarially determined annual required contribution (ARC), and therefore, a net pension obligation of \$84,480 has been created.

Table 4 -Long-Term Debt

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Capital leases	\$ 174,884	\$ 223,563
Compensated absences	516,430	448,115
Net pension obligation	84,480	35,862
Total long-term debt	<u>\$ 775,794</u>	<u>\$ 707,540</u>

Additional information on the City of Santa Fe's long-term debt can be found in Note 5 on pages 37 through 38 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 2010/11 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 2010 tax rate remained the same as the 2009 tax rate of \$0.3114 per \$100 valuation, and consists entirely of maintenance and operations (M&O) with no debt service (I&S). The taxable value for 2010 is \$546,445,250, an increase of \$38,247,975 from last year's value of \$508,197,275. The value of new improvements and new personal property located in the City is \$5,671,980 constituting approximately 15 percent of the increase in taxable value. Land values increased \$54,939,292, a 44 percent increase from the 2009 value of \$123,917,740; however, the homestead cap for 2010 was \$13,021,097, compared to the 2009 cap of \$314,382. 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 \$81,282,248 or 15 percent of the taxable value, as compared to last year's value of \$72,111,479, or 14 percent of the taxable value.
- The City's second largest source of revenue in the general fund is sales tax. The city projects a marginal decrease from the prior year budget of \$1,536,000, to \$1,350,000, or 12 percent.

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2010**

- Other significant general revenues are building and permit fees and municipal court fines. The budget projection for license and permit fees for 2010/11 is expected to increase 19 percent from \$127,270, to \$151,800, consisting mainly of \$119,000 in development-related fees as compared to \$106,000 from development fees projected in fiscal year 2009/10. Municipal court fine budgeted revenues are expected to decrease by about 23 percent, from \$325,000 to \$250,000 projected for the new fiscal year, with new technology and credit card services being explored in an effort to improve long-term collections.
- Budgeted interest earnings are projected to decrease more than 83 percent from 2009/10 from \$35,000 to \$6,000 as the global economic downturn remains in force.
- For the 2010/11 fiscal year, the City appropriated \$265,942 of the available fund balance for general fund spending. This leaves \$1,253,517 in estimated reserves, which is about 28 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 \$1,118,626 for the 2010/2011 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 \$1,253,517 at September 30, 2011, a decrease from last year's projection of \$1,775,957.

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.

BASIC FINANCIAL STATEMENTS

CITY OF SANTA FE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

STATEMENT 1

	<u>Primary Government</u>		<u>Component Unit - Santa Fe Economic Development Corporation</u>
	<u>Governmental</u>	<u>Total</u>	
	<u>Activities</u>		
ASSETS			
Cash and cash equivalents	\$ 228,336	\$ 228,336	\$ 612,026
Investments:			
Tex Pool	309,724	309,724	587,586
Logic	591,701	591,701	-
Receivables, net where applicable of allowance for uncollectibles:			
Property taxes, net	217,808	217,808	-
Municipal court assessments, net	76,171	76,171	-
Other	824,722	824,722	76,814
Prepaid expenses	-	-	-
Restricted assets:			
Cash and cash equivalents:			
Library expansion	18,315	18,315	-
Park development	281	281	-
Special purpose funds	184,368	184,368	-
Refundable deposits	121,000	121,000	-
Capital assets:			
Nondepreciable	574,548	574,548	-
Depreciable, net of accumulated depreciation	18,618,547	18,618,547	-
Construction in progress	-	-	48,211
Total Assets	<u>21,765,521</u>	<u>21,765,521</u>	<u>1,324,637</u>
LIABILITIES			
Accounts payable	257,637	257,637	-
Accrued salaries	78,193	78,193	-
Accrued payroll taxes	10,946	10,946	-
Refundable deposits	121,000	121,000	-
Deferred revenues:			
PG&E Pipeline settlement	20,625	20,625	-
Special purpose funds	184,368	184,368	-
Other	7,768	7,768	-
Noncurrent liabilities:			
Due within one year	104,819	104,819	-
Due in more than one year	670,975	670,975	-
Total Liabilities	<u>1,456,331</u>	<u>1,456,331</u>	<u>-</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 19,018,211	\$ 19,018,211	\$ 48,211
Restricted for:			
Future budget requirements	265,942	265,942	150,298
Library expansion	18,315	18,315	-
Park development	281	281	-
Home Investment Partnerships Program	85	85	-
Infrastructure improvements	-	-	1,126,128
Unrestricted	<u>1,006,356</u>	<u>1,006,356</u>	<u>-</u>
Total Net Assets (Deficit)	<u>\$ 20,309,190</u>	<u>\$ 20,309,190</u>	<u>\$ 1,324,637</u>

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government administration	\$ 556,082	\$ 15,050	\$ 1,279	\$ -
Tax	13,380	-	-	-
Community services	272,550	219,864	-	-
Judicial/Police	2,356,463	248,948	51,970	10,915
Fire Marshal	15,288	-	-	-
Public safety	53,598	-	-	-
Library	208,000	3,246	10,888	-
Streets	1,309,053	2,678	-	317,271
Parks	87,827	-	-	-
Community center	23,232	9,537	-	-
Interest on long term debt	8,698	-	-	-
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	194,998	-	194,244	-
Texas Community Development Block Grant (TxCDBG); Disaster Recovery Grant Program; Contract #DRS010168-Round 1	194,081	-	194,081	-
Total Primary Government Governmental Activities	\$ 5,293,250	\$ 499,323	\$ 452,462	\$ 328,186
Component Unit				
Santa Fe Economic Development Corporation	\$ 19,093	\$ -	\$ -	\$ -
Total Component Unit Governmental Activities	\$ 19,093	\$ -	\$ -	\$ -

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, as restated (See Note 10)

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>
\$ (539,753)	\$ (539,753)	\$ -	-
(13,380)	(13,380)	-	-
(52,686)	(52,686)	-	-
(2,044,630)	(2,044,630)	-	-
(15,288)	(15,288)	-	-
(53,598)	(53,598)	-	-
(193,866)	(193,866)	-	-
(989,104)	(989,104)	-	-
(87,827)	(87,827)	-	-
(13,695)	(13,695)	-	-
(8,698)	(8,698)	-	-
(754)	(754)	-	-
-	-	-	-
(4,013,279)	(4,013,279)	-	-
-	-	(19,093)	-
-	-	(19,093)	-
1,549,686	1,549,686	-	-
1,323,135	1,323,135	441,045	-
676,284	676,284	-	-
30	30	-	-
6,289	6,289	7,757	-
21,461	21,461	-	-
(38,145)	(38,145)	-	-
13,482	13,482	-	-
-	-	-	-
3,552,222	3,552,222	448,802	-
(461,057)	(461,057)	429,709	-
20,770,247	20,770,247	894,928	-
\$ 20,309,190	\$ 20,309,190	\$ 1,324,637	-

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General Fund</u>	<u>Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program</u>
ASSETS		
Cash and cash equivalents	\$ 228,251	\$ 85
Investments:		
Tex Pool	309,724	-
Logic	591,701	-
Receivables, net where applicable of allowance for uncollectibles:		
Property taxes, net	217,808	-
Municipal court assessments, net	76,171	-
Due from other governments	439,546	-
Other	385,176	-
Prepaid items	-	-
Restricted assets:		
Cash and cash equivalents:		
Library expansion	18,315	-
Park development	281	-
Special purpose funds	184,368	-
Refundable deposits	121,000	-
Total Assets	<u>\$ 2,572,341</u>	<u>\$ 85</u>
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 257,637	\$ -
Accrued salaries	78,193	-
Accrued payroll taxes	10,946	-
Refundable deposits	121,000	-
Deferred revenues:		
Property taxes	212,525	-
Municipal court assessments	62,236	-
PG&E Pipeline settlement	20,625	-
Special purpose funds	184,368	-
Other	7,768	-
Total liabilities	<u>955,298</u>	<u>-</u>
Fund Balances		
Reserved for:		
Future budget requirements	265,942	-
Library expansion	18,315	-
Park development	281	-
Encumbrances	658	-
Prepaid items	-	-
Unreserved, undesignated, reported in:		
General Fund	1,331,847	-
Special Revenue Fund	-	85
Total fund balances	<u>1,617,043</u>	<u>85</u>
Total Liabilities and Fund Balances	<u>\$ 2,572,341</u>	<u>\$ 85</u>

See accompanying notes to basic financial statements.

STATEMENT 3

Texas Department of Rural Affairs (TDRA); Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	Texas Department of Rural Affairs (TDRA); Community Development Block Grant Program; Contract #DRS010168-Round 1	Total Governmental Funds
\$ -	\$ -	\$ 228,336
-	-	309,724
-	-	591,701
-	-	217,808
-	-	76,171
-	-	439,546
-	-	385,176
-	-	-
-	-	18,315
-	-	281
-	-	184,368
-	-	121,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,572,426</u>
\$ -	\$ -	\$ 257,637
-	-	78,193
-	-	10,946
-	-	121,000
-	-	212,525
-	-	62,236
-	-	20,625
-	-	184,368
-	-	7,768
<u>-</u>	<u>-</u>	<u>955,298</u>
-	-	265,942
-	-	18,315
-	-	281
-	-	658
-	-	-
-	-	1,331,847
-	-	85
<u>-</u>	<u>-</u>	<u>1,617,128</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,572,426</u>

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

STATEMENT 4

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,617,128

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	\$ 33,621,856	
Less: Accumulated depreciation	<u>(14,428,760)</u>	19,193,096

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.

274,761

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	174,884	
Compensated absences payable	516,431	
Net pension obligation	<u>84,480</u>	<u>(775,795)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES
IN THE STATEMENT OF NET ASSETS

\$ 20,309,190

CITY OF SANTA FE, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	Texas Department of Rural Affairs (TDRA); Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program
Revenues			
Taxes:			
Property	\$ 1,555,171	\$ -	-
Franchise and contract fees	684,159	-	-
Sales tax	882,090	-	-
Sales tax - property tax reduction	441,045	-	-
Licenses and permits	219,864	-	-
Municipal fines and cash bond forfeits	250,816	-	-
Intergovernmental revenues	353,103	-	153,503
Interest income	6,318	-	-
Penalty and interest, property taxes	30,530	-	-
Other revenues	76,406	-	-
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	-	-	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant Supplemental Fund Program	40,741	-	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant - Disaster Recovery Program; Contract #DRS010168-Round 1	-	-	-
Total revenues	4,540,243	-	153,503
Expenditures			
Current:			
General government administration	535,319	-	-
Tax	13,380	-	-
Community services	251,897	-	-
Judicial/Police	2,186,766	-	-
Fire Marshal	12,339	-	-
Public Safety	53,598	-	-
Library	190,735	-	-
Streets	576,855	-	-
Parks	76,635	-	-
Community center	17,590	-	-
Capital expenditures	1,175,844	-	-
Debt service:			
Principal retirement	275,546	-	-
Interest	8,698	-	-

(Continued)

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, 2010

	General Fund	Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	Texas Department of Rural Affairs (TDRA); Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	-	-	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant Supplemental Fund Program			
Administrative	3,000	-	5,325
Engineering	10,441	-	6,700
Rehabilitaion of private properties	-	-	10,289
Water facilities	28,054	-	131,189
Texas Department of Rural Affairs (TDRA); Community Development Block Grant - Disaster Recovery Program; Contract #DRS010168-Round 1			
Water facilities	-	-	-
Sewer facilities	-	-	-
Engineering	-	-	-
Planning/Project delivery	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	5,416,697	-	153,503
Excess (deficiency) of revenues over (under) expenditures	<hr/> (876,454)	<hr/> -	<hr/> -
Other Financing Sources (Uses):			
Transfer in	-	-	-
Transfer out	-	-	-
Proceeds from sale of capital assets	64,811	-	-
Capital lease contracts	263,093	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	327,904	-	-
Net change in fund balances	(548,550)	-	-
Fund balances at beginning of year	<hr/> 2,165,593	<hr/> 85	<hr/> -
Fund balances at end of year	<hr/> \$ 1,617,043	<hr/> \$ 85	<hr/> \$ -

See accompanying notes to basic financial statements.

STATEMENT 5

Texas Department of Rural Affairs (TDRA); Community Development Block Grant - Disaster Recovery Program; Contract #DRS010168-Round 1	Total Governmental Funds
-	-
-	8,325
-	17,141
-	10,289
-	159,243
507	507
-	-
122,116	122,116
71,458	71,458
194,081	5,764,281
-	(876,454)
-	-
-	-
-	64,811
-	263,093
-	327,904
-	(548,550)
-	2,165,678
<u>\$</u>	<u>\$</u> 1,617,128

See accompanying notes to basic financial statements.

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, 2010

STATEMENT 6

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (548,550)

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	\$ 1,175,844	
Deduct: Depreciation expense	<u>(863,427)</u>	312,417

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	(14,554)	
Municipal court assessments	<u>(2,935)</u>	(17,489)

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. (263,093)

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. 275,546

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	(68,315)	
Net pension obligation	<u>(48,618)</u>	(116,933)

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	(364,044)	
Accumulated depreciation of assets disposed	<u>261,089</u>	<u>(102,955)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (461,057)

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 13 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. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 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.

HOME Investment Partnerships Program – this special revenue fund is used to provide homeowner occupied assistance to qualifying individuals who have significant housing needs related to the rehabilitation and reconstruction of their principal residence.

Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program – this special revenue fund will provide water system improvements including first-time service to Southwest Santa Fe near the Runge Park area.

Community Development Block Grant – Disaster Recovery Grant Program – Contract #DRS010168 – 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.

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 short-term investments with original maturities of one year or less from the date of acquisition.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

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 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 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, 2010 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 for Uncollectibles</u>	<u>Receivables - Net of Allowance for Uncollectibles</u>
Property taxes	\$ 158,417	\$ 24,280	\$ 134,137
Property taxes - penalty and interest	109,856	26,185	83,671
Municipal court assessments	761,710	685,539	76,171
Due from other governments - specific program grants	439,546	-	439,546
Other:			
Franchise and contract fees	75,471	-	75,471
Sales tax	307,254	-	307,254
Miscellaneous	2,451	-	2,451
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 1,854,705</u>	<u>\$ 736,004</u>	<u>\$ 1,118,701</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. The park development restricted cash has been restricted by council for the development of future parks.

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

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, 2010 in the government-wide and governmental fund financial statements are 74% vendors, 17% employer and employee retirement contributions, and 9% municipal court state costs collected and due 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 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, reserved fund balances are not available for appropriations because the City will use these resources within the next budgetary period or they have been legally segregated for specific purposes. Unreserved/Designated fund balances indicate that portion of fund balance for which the City has tentative plans that can be increased, reduced, or eliminated by action of City Council or Management. Unreserved/Undesignated fund balances are that portion of fund balance that is available for appropriation and expenditure in future periods, or if a deficit, for which future funding will be required.

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

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 in instruments that have a maturity of longer than one year. As of September 30, 2010, 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.

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 extend 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, 2010:

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, 2010, 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 \$551,900 and the bank balance was \$548,314. Of this bank balance, \$250,000 is covered by federal depository insurance. The remaining balance \$298,314 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:

	<u>Carrying Amount</u>	
Demand and time deposits	\$	551,900
Petty Cash		<u>400</u>
Total cash and cash equivalents		552,300
Less: restricted cash and cash equivalents		<u>(323,964)</u>
Unrestricted cash and cash equivalents	\$	<u>228,336</u>

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,

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

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, Lehman Brothers, 600 Travis Street, Suite 7200, Houston, Texas 77002.

The City of Santa Fe had \$309,724 invested in TexPool as of September 30, 2010, at a 0.195% average annual rate of return. TexPool's portfolio is managed by Lehman Brothers, Inc. and Federated Investors, Inc. ("Lehman and Federated"), and the assets are safekept in a separate custodial account at State Street Bank 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 risks, 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 program.

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.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action 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 Funds Investment Act, Chapter 2256 of the Texas Government Code. The Cooperative's governing body is a five member Board of Directors in which two are advisory board members. 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 \$591,701 invested in LOGIC I as of September 30, 2010, at a 0.242% 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 JP Morgan Asset Management, Inc. to serve as Co-Administrators of the Cooperative. They will provide administrative, investment management, participant services, fund accounting, custodial services, and marketing services for the Cooperative. JP Morgan Chase Bank is the custodian for the Cooperation.

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
(CONTINUED)
SEPTEMBER 30, 2010

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 effective dollar-weighted average portfolio maturity of the portfolio is 90 days or less (or fewer days if required to maintain its rating), and no instrument may have a term of more than 13 months. The Board has determined, in good faith, that it is 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 reasonable 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, 2010, 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, 2010

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance October 1	Increases	Decreases	Ending Balance September 30
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 250,048	\$ 324,500	\$ -	\$ 574,548
Total capital assets not being depreciated	<u>250,048</u>	<u>324,500</u>	<u>-</u>	<u>574,548</u>
<i>Capital assets being depreciated:</i>				
Buildings	681,068	-	-	681,068
Building improvements	222,912	-	-	222,912
Computers	266,732	10,045	19,298	257,479
Equipment	1,106,703	103,705	93,399	1,117,009
Furniture and fixtures	11,164	1,300	-	12,464
Improvements (other than buildings)	72,314	19,785	-	92,099
Infrastructure	26,435,667	45,000	-	26,480,667
Infrastructure improvements	2,960,193	471,038	-	3,431,231
Radios	44,061	3,200	-	47,261
Vehicles	759,194	197,271	251,347	705,118
Total capital assets being depreciated	<u>32,560,008</u>	<u>851,344</u>	<u>364,044</u>	<u>33,047,308</u>
<i>Less accumulated depreciation for:</i>				
Buildings	292,148	17,079	-	309,227
Building improvements	169,486	11,761	-	181,247
Computers	169,353	37,408	19,298	187,463
Equipment	714,831	79,343	88,632	705,542
Furniture and fixtures	9,118	835	-	9,953
Improvements (other than buildings)	18,154	5,055	-	23,209
Infrastructure	11,540,616	442,278	-	11,982,894
Infrastructure improvements	492,966	202,185	-	695,151
Radios	26,701	3,009	-	29,710
Vehicles	393,049	64,473	153,158	304,364
Total accumulated depreciation	<u>13,826,422</u>	<u>863,426</u>	<u>261,088</u>	<u>14,428,760</u>
Total capital assets being depreciated, net	<u>18,733,586</u>	<u>(12,082)</u>	<u>102,956</u>	<u>18,618,548</u>
Governmental activities capital assets, net	<u>\$ 18,983,634</u>	<u>\$ 312,418</u>	<u>\$ 102,956</u>	<u>\$ 19,193,096</u>

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

Depreciation expense was charged to functions/programs of the primary government as follows:

General government administration	\$	9,909
Community service		14,070
Police/Judicial		94,686
Library		11,533
Streets		714,940
Community center		5,642
Fire marshal		2,949
Parks		9,697
		<hr/>
Total depreciation expense - governmental activities	\$	<u>863,426</u>

NOTE 5 – LONG-TERM DEBT

The following is a summary of changes in long-term liabilities for the year ended September 30, 2010:

	Beginning Balance <u>October 1</u>	<u>Additions</u>	<u>Payments</u>	Ending Balance <u>September 30</u>	Due Within <u>One Year</u>
Governmental Activities					
Capital lease obligations	\$ 223,563	\$ 207,653	\$ 256,332	\$ 174,884	\$ 104,819
Compensated absences	448,115	355,413	287,098	516,430	-
Net pension obligation	<u>35,862</u>	<u>48,618</u>	<u>-</u>	<u>84,480</u>	<u>-</u>
Total Governmental Activities					
Long-term liabilities	<u>\$ 707,540</u>	<u>\$ 611,684</u>	<u>\$ 543,430</u>	<u>\$ 775,794</u>	<u>\$ 104,819</u>

Capital Lease Obligations:

- One 2009 Ford Police Crown Victoria with mobile video system, one Ford Crown Victoria for City Marshal, one 2009 Ford dump truck, one mobile radio, and eight dual antenna radars. Total purchase price of \$119,329, financed by Suntrust Equipment Finance and Leasing Corp., one annual payment of \$41,433, with no interest and two annual payments of \$41,433, including interest at 4.225% through April 15, 2011. 39,754
 - Four 2010 Ford Crown Victoria Police Interceptors, 2010 John Deere tractor with boom mower, 2008 tractor/mower with front end loader, two new outdoor air condition units and three new air handler units, and a microphone system. Total purchase price \$207,653, financed by Baystone Financial Group, one annual payment of \$72,523, with no interest. One annual payment of \$69,901 and one annual payment of \$72,523, including interest at 3.51% through November 13, 2011. 135,130
- Total capital lease obligations \$ 174,884

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

The City entered into capital lease agreements in order to purchase vehicles, computer software, mobile video cameras, and radios for the police department. They also purchased vehicles, an excavator, tractors, and mowers for the street department and computer software for community service.

Vehicles	\$	288,721	
Less: Accumulated depreciation		<u>41,390</u>	
Net vehicles			\$ 247,331
Equipment		470,874	
Less: Accumulated depreciation		<u>155,737</u>	
Net equipment			315,137
Computers		57,771	
Less: Accumulated depreciation		<u>32,737</u>	
Net computers			25,034
Radios		9,605	
Less: Accumulated depreciation		<u>1,482</u>	
Net radios			<u>8,123</u>
Capitalized leased assets, net			<u>\$ 595,625</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, 2010:

	<u>Governmental Activities</u> <u>Capital Leases</u>	
Year Ended September 30:		
2011	\$	111,334
2012		72,524
2013		-
2014		-
2015 and future		<u>-</u>
Total principal and interest		183,858
Less: Amount representing interest		<u>8,974</u>
Total future principal payments	\$	<u>174,884</u>

Net Pension Obligation:

The City has not been able to contribute the full retirement rate for the fiscal year end 2009 and 2010. This created an actual contribution that was less than the actuarially determined annual required contribution (ARC), and therefore, a net pension obligation of \$84,480 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.

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

In both the government-wide and governmental fund financial statements no interfund receivable or payable transactions occurred during the course of operations, and none existed as of September 30, 2010. 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 2,682 Texas municipalities and other governmental units as of September 30, 2010. 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, 2010, the City paid out of its General Fund net premiums of approximately \$65,385 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, 2010, the City contributed out of its General Fund net premiums of approximately \$53,944 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, 2010, 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, 2010.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

Litigation

The City is party to various legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would 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.

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:

	Plan Year	Plan Year
	<u>2009</u>	<u>2010</u>
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 (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

CITY OF SANTA FE, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 SEPTEMBER 30, 2010

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)	344,045
Interest on Net Pension Obligation	2,690
Adjustment to the ARC	(2,190)
Annual Pension Cost (APC)	344,545
Contributions Made	(295,927)
Increase (decrease) in net pension obligation	48,618
Net Pension Obligation/(Asset), beginning of year	35,862
Net Pension Obligation/(Asset), end of year	84,480

City historical data is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation/ (Asset)</u>
2008	274,908	274,908	100%	-
2009	290,978	255,116	88%	35,862
2010	344,545	295,927	86%	48,618

CITY OF SANTA FE, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 SEPTEMBER 30, 2010

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation date	12/31/2007	12/31/2008	12/31/2009
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 equivalent single amortization period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	Amortized cost	Amortized cost	10-year Smoothed Market
Actuarial assumptions:			
Investment rate of return*	7.0%	7.5%	7.5%
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%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4) / (5)
12/31/2009	\$ 3,751,559	\$ 6,338,232	59.2%	\$ 2,586,673	\$ 2,602,700	99.4%

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 – RESTATEMENTS

The following restatements were made to beginning net assets (Government-Wide Statements):

- The repayment of capital lease principal was reported as an expenditure in the 2008-09 fiscal year, but should have been shown as a reduction in long-term liabilities on the balance sheet. The effect of this adjustment caused the beginning net assets to increase \$3,655. Total net assets increased from \$20,766,592 to \$20,770,247.

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 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 short–term investments (Certificates of Deposit) with original maturities of one year or less from the date of acquisition.

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.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

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 local sales tax due from the Comptroller of Public Accounts. No allowance for uncollectible has been set up since this amount has been received in the subsequent year.

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:

<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.

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.

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, reserves and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. The various reservations and designations are established by actions of the Board of Directors and Management and can be increased, reduced or eliminated by similar actions. As of September 30, 2010, fund balances are described below:

- *Reserved for, future budget requirements* – The Board of Directors and Management have reserved and made available a portion of fund balance for subsequent year appropriations.
- *Unreserved, designated for infrastructure improvements* – The Board of Directors have established a guide for funding Economic Development Projects. The Board has determined that the funds will be used on the public works infrastructure improvements, with primary emphasis on water/wastewater expansion and with secondary emphasis on drainage, streets and roads, including maintenance and operating expenses for projects developed with economic development funds designated to promote new or expanded business enterprises. The funds will also be used for administrative support including accounting and financial management activities.

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

B-1. 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 in instruments that have a maturity of longer than one year. As of September 30, 2010, all of the Corporation's investments were invested for a period of one year or less. 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 complied with during the year. Investments at year end are representative of the types of investments maintained by the Corporation during the year.

B-2. 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, 2010:

- 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, 2010, 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 \$612,026 (all considered cash and cash equivalents) and the bank balance was \$612,429. 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.

B-3. 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, Lehman Brothers, 600 Travis Street, Suite 7200, Houston, Texas, 77002.

The Economic Development Corporation had \$587,586 invested in TexPool as of September 30, 2010, at a .195% average annual rate of return. TexPool’s portfolio is managed by Lehman Brothers, Inc. and Federated Investors, Inc. (“Lehman and Federated”), and the assets are safekept in a separate custodial account at State Street Bank 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 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

CITY OF SANTA FE, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 SEPTEMBER 30, 2010

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.

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 net asset value and must take immediate action in 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.

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 one instrument. At September 30, 2010, the Corporation had no concentration of credit risk.

C. – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance October 1	Increases	Decreases	Ending Balance September 30
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land - property owners easement contributions	\$ -	\$ 23,800	\$ -	\$ 23,800
Construction in progress	-	24,411	-	24,411
Total capital assets not being depreciated	-	48,211	-	48,211
<i>Capital assets being depreciated:</i>				
Less accumulated depreciation	-	-	-	-
Total capital assets being depreciated, net	-	-	-	-
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ 48,211</u>	<u>\$ -</u>	<u>\$ 48,211</u>

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

CITY OF SANTA FE, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 SEPTEMBER 30, 2010

Capital asset balance of \$48,211 was related to the following commitments (See Note 7):

Jackson Street and Highway 6 Waterline Loop Project	\$ 18,310
Waterline Project on FM 1764 Between Avenue Q and FM 646 North	<u>29,901</u>
Total	<u>\$ 48,211</u>

D. – LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2010 was as follows:

	Beginning Balance <u>October 1</u>	<u>Additions</u>	<u>Payments</u>	Ending Balance <u>September 30</u>	Due Within <u>One Year</u>
Governmental Activities					
Economic Development					
Bonds, Series 2002	\$ 645,308	\$ -	\$ 645,308	\$ -	\$ -

Economic Development Bonds, Series 2002

On August 27, 2003, the Corporation approved a resolution authorizing the issuance of \$1.9 million of special revenue bonds, secured by a one-half cent sales tax and issued serially, to be used for the construction of water and sewer lines. The sales tax, approved in an election held on May 3, 2003 by the citizens of the City of Santa Fe, Texas, was adopted for “public works infrastructure improvements, specifically water/wastewater expansion, drainage, and street and roads.” The bonds bear interest from the date of delivery to their dates of maturity or redemption prior to maturity at 5.20% per annum. Principal and interest are payable on the first day of December, March, June, and September. The bonds mature between December 1, 2002 and September 1, 2014.

The bond indenture contains significant limitations and restrictions on quarterly debt service requirements, maintenance of and flow of monies through restricted accounts, and minimum amounts to be maintained in interest and sinking funds. The Corporation is substantially in compliance with all such significant limitations and restrictions.

On October 13, 2009, the Corporation Board of Directors voted to pay off the balance of the \$1.9 million Economic Development Bonds, Series 2002. A principal payment of \$645,308 was made to completely pay off the debt and no future General Long-Term Debt payments are required.

E. – 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, 2010, no amounts were reported as interfund receivables, payables, or transfers in the government-wide or governmental fund financial statements.

F. – 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 2,682 Texas municipalities and other governmental units as of September 30, 2010. 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, 2010, the City paid net premiums of approximately \$53,944 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.

G. – 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. 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 \$13,962 was contributed during the 2009-10 year. The remaining amount of \$986,038 will be contributed in future years. This amount has not been recorded in the 2009-10 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, 2010. 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 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, 2010, the amount authorized for the project is \$191,489 with actual expenditures incurred of \$18,310. The remaining authorized project cost of \$173,180 has not been recorded in the 2009-10 year financial statements but will be incurred and reported in future years as the project continues.

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, 2010. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on December 12, 2010. 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, 2010, the amount authorized for the project is \$141,255 with actual expenditures incurred of \$29,901. The remaining authorized project cost of \$111,354 has not been recorded in the 2009-10 year financial statements but will be incurred and reported in future years as the project continues.

Waterline Project on FM 1764 Between 3rd Street and Avenue S

The Economic Development Corporation approved the Waterline Project on FM 1764 Between 3rd Street and Avenue S on May 25, 2010. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement No. 8 (WCID No. 8) on December 14, 2010. 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,

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2010

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, 2010, the amount authorized for the project is \$137,135 with no actual expenditures incurred. The authorized amount of \$137,135 has not been recorded in the 2009-10 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, 2010, 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 2009-10 year financial statements but will be incurred and reported 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

CITY OF SANTA FE, TEXAS

EXHIBIT 1

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Taxes:				
Property	\$ 1,536,500	\$ 1,536,500	\$ 1,555,171	\$ 18,671
Franchise and contract fees	679,200	683,077	684,159	1,082
Sales tax	1,024,000	850,000	882,090	32,090
Sales tax - property tax reduction	512,000	425,000	441,045	16,045
Licenses and permits	127,270	213,365	219,864	6,499
Municipal finds and cash bond forfeits	327,500	227,430	250,816	23,386
Intergovernmental revenues	63,100	77,444	353,103	275,659
Interest income	35,000	6,000	6,318	318
Penalty and interest, property taxes	35,000	35,000	30,530	(4,470)
Other revenues	16,376	27,383	76,406	49,023
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnership Program	-	-	-	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant Supplemental Fund Program	-	40,741	40,741	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant - Disaster Recovery Grant Program; Contract #DRS010168 - Round 1	-	-	-	-
Total revenues	4,355,946	4,121,940	4,540,243	418,303
Expenditures				
Current:				
General government administration	508,730	555,465	535,319	20,146
Tax	14,402	14,402	13,380	1,022
Community services	278,753	266,978	251,897	15,081
Judicial/Police	2,235,614	2,239,567	2,186,766	52,801
Fire Marshal	14,010	14,010	12,339	1,671
Public Safety	57,090	57,090	53,598	3,492
Library	202,595	207,049	190,735	16,314
Streets	608,301	613,533	576,855	36,678
Parks	100,118	101,318	76,635	24,683
Community center	18,665	18,665	17,590	1,075
Capital expenditures	234,000	842,586	1,175,844	(333,258)
Debt service:				
Principal retirement	258,847	271,411	275,546	(4,135)
Interest	9,782	9,781	8,698	1,083

(Continued)

See notes to required supplementary information.

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, 2010

EXHIBIT 1

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program - Administrative	-	-	-	-
Project construction costs	-	-	-	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant Supplemental Fund Program - Administrative	-	3,000	3,000	-
Engineering	-	10,441	10,441	-
Rehabilitation of private properties	-	-	-	-
Water facilities	-	28,054	28,054	-
Texas Department of Rural Affairs (TDRA); Community Development Block Grant - Disaster Recovery Grant Program; Contract #DRS010168 - Round 1 Water facilities	-	-	-	-
Sewer facilities	-	-	-	-
Engineering	-	-	-	-
Planning/Project delivery	-	-	-	-
Total expenditures	<u>4,540,907</u>	<u>5,253,350</u>	<u>5,416,697</u>	<u>(163,347)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(184,961)</u>	<u>(1,131,410)</u>	<u>(876,454)</u>	<u>254,956</u>
Other Financing Sources (Uses):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Proceeds from sale of capital assets	-	41,767	64,811	23,044
Capital lease contracts	-	265,716	263,093	(2,623)
Issuance of debt - line of credit proceeds	-	-	-	-
Appropriated fund balance	<u>184,961</u>	<u>851,749</u>	<u>-</u>	<u>(851,749)</u>
Total other financing sources (uses)	<u>184,961</u>	<u>1,159,232</u>	<u>327,904</u>	<u>(831,328)</u>
Net change in fund balances	-	27,822	(548,550)	(576,372)
Fund balances at beginning of year	<u>2,165,593</u>	<u>2,165,593</u>	<u>2,165,593</u>	-
Fund balances at end of year	<u>\$ 2,165,593</u>	<u>\$ 2,193,415</u>	<u>\$ 1,617,043</u>	<u>\$ (576,372)</u>

See notes to required supplementary information.

CITY OF SANTA FE, TEXAS

EXHIBIT 2

SCHEDULE OF REVENUES, EXPENDITURES AND

CHANGE IN FUND BALANCES - BUDGET AND ACTUAL -

SPECIAL REVENUE FUND - HOME INVESTMENT PARTNERSHIPS PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Revenues				
Intergovernmental revenues:				
Texas Department of Housing and Community Affairs Grant	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Current:				
Administrative costs	-	-	-	-
Project construction costs	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	85	85
Fund balances at end of year	\$ -	\$ -	\$ 85	\$ 85

See notes to required supplementary information.

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - TEXAS COMMUNITY DEVELOPMENT BLOCK
GRANT (TxCDBG) SUPPLEMENTAL FUND PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenues:				
Texas Department of Rural Affairs Grant	\$ -	\$ 153,453	\$ 153,503	\$ 50
Total revenues	-	153,453	153,503	50
Expenditures				
Current:				
Water facilities	-	131,189	131,189	-
Rehabilitation of private properties	-	10,289	10,289	-
Engineering/Architectural service	-	6,700	6,700	-
General administration	-	5,275	5,325	(50)
Total expenditures	-	153,453	153,503	(50)
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information.

*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK
GRANT - DISASTER RECOVERY GRANT PROGRAM,
CONTRACT #DRS010168 - ROUND 1
FOR THE YEAR ENDED SEPTEMBER 30, 2010*

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Revenues				
Intergovernmental revenues:				
Texas Department of Rural Affairs Grant	\$ -	\$ 249,749	\$ 194,081	\$ (55,668)
Total revenues	-	249,749	194,081	(55,668)
Expenditures				
Current:				
Water facilities	-	507	507	-
Sewer facilities	-	30,000	-	30,000
Engineering	-	144,286	122,116	22,170
Planning/Project delivery	-	74,956	71,458	3,498
Total expenditures	-	249,749	194,081	55,668
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

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) to 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 10, 2009. Passed, approved, and adopted by City Council was Ordinance Number 05-2010 and Ordinance Number 15-2010. 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.

For the year ended September 30, 2010, expenditures exceeded appropriations in the following:

General Fund:		
Capital expenditures	\$	333,258
Debt service: principal payments		4,135

General Fund deficits were funded by excess budget amounts in other departments of the general fund and available fund balance.

CITY OF SANTA FE, TEXAS
 SCHEDULE OF FUNDING PROGRESS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SEPTEMBER 30, 2010

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.

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3)	Unfunded AAL (UAAL) (4)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6)
			(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%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SANTA FE, TEXAS
SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

SCHEDULE 1

General Fund:

Certificate of Deposits:

<u>Certificate Numbers</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>September 30, 2010 Balance</u>
40419673	0.85%	02/12/11	\$ 121,643
40419674	0.85%	02/12/11	121,643
40419675	0.85%	02/12/11	<u>228,678</u>
Total temporary investments			<u>\$ 471,964</u>

CITY OF SANTA FE, TEXAS
 ANALYSIS OF TAXES RECEIVABLE
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

SCHEDULE 2

Taxes receivable - October 1		\$	168,146
2009 original tax assessment	\$	1,548,888	
Add (Deduct): Abatements and adjustments to tax rolls during the year		<u>(3,173)</u>	<u>1,545,715</u>
Total to be accounted for			1,713,861
Less collections:			
Current year		1,515,185	
Prior years		<u>40,259</u>	
Total collections			<u>1,555,444</u>
Taxes receivable - September 30			158,417
Less allowance for uncollectible taxes			<u>(24,280)</u>
Net taxes receivable - September 30		\$	<u>134,137</u>

Taxes receivable by years:			
2009	\$	46,096	
2008		24,702	
2007		15,528	
2006		12,111	
2005		8,089	
2004		7,551	
2003		5,913	
2002		4,936	
2001		4,301	
2000		4,142	
1999 and prior years		<u>25,048</u>	\$ 158,417
Less allowance for uncollectible taxes			<u>(24,280)</u>
Net taxes receivable - September 30			\$ <u>134,137</u>

Assessed valuation	\$	531,562,863
Percent of assessed valuation to the fair market value		100.00%
Tax rate per \$100 valuation		0.3114
Percent of the current year's taxes collected to the current taxes levied		97.82%
Percent of the current and delinquent taxes collected to current and delinquent taxes outstanding at the beginning of the year		90.76%

*CITY COUNCIL, KEY ADMINISTRATIVE PERSONNEL AND LEGAL COUNSEL
FOR THE YEAR ENDED SEPTEMBER 30, 2010*

<u>Name, Address, and Term of Office, Elected-Expires</u>	<u>Annual Salary</u>	<u>Title</u>	<u>Resident of City</u>	<u>Relationship with Major Land Owners, Engineer, Attorney and Tax Assessor-Collector</u>
Ralph Stenzel 5518 FM 646S Santa Fe, Tx 77510 5/09 to 5/12	\$0	Mayor	Yes	None
Joe Carothers 4410 Castle Drive Santa Fe, Tx 77510 05/10 to 05/13	\$0	Mayor Pro-Tem	Yes	None
Jeff Tambrella 12017 - 24th. Street Santa Fe, Tx 77510 5/09 to 5/12	\$0	Council Member	Yes	None
Ronald "Bubba" Jannett 5136 Ave L Santa Fe, Tx 77510 05/10 to 05/13	\$0	Council Member	Yes	None
Pat McCrary 3409 Avenue J Santa Fe, Tx 77510 05/10 to 05/13	\$0	Council Member	Yes	None
Jim Abney 4827 Avenue H Santa Fe, Tx 77510 5/09 to 5/12	\$0	Council Member	Yes	None
Joe Dickson 3807 Wade Santa Fe, Tx 77510	\$99,308	City Manager	Yes	None
Janet Davis 12835 24th St. Santa Fe, Tx 77510	\$58,593	City Secretary/Treasurer	Yes	None
Ellis J. Ortego 606 Bayou Crest Dr. Dickinson, Tx 77536	\$22,839	Prosecutor and City Attorney	No	None

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance - Over (Under) Budget	September 30, 2009	
	Final Budget	Actual		Budget	Actual
PRIMARY GOVERNMENT:					
GENERAL FUND					
Administration					
Capital expenditures					
Furniture and office equipment	\$ 7,000	\$ 7,090	\$ 90	\$ -	-
Instruments	1,118	1,118	-	-	-
Buildings and structures	-	-	-	-	-
Motor vehicle	-	-	-	-	-
Machinery, tools and equipment	-	-	-	-	-
Land	324,500	324,500	-	-	-
Capital outlay, capital lease	3,200	3,200	-	-	-
Insurance	67,000	66,538	(462)	51,707	-
Maintenance and repairs	9,100	8,240	(860)	6,569	-
Personnel services	346,830	340,175	(6,655)	318,677	-
Special services	115,175	103,960	(11,215)	85,579	-
Supplies and materials	8,860	8,098	(762)	9,436	-
Utilities	8,500	8,307	(193)	8,478	-
Compensated absences	-	-	-	-	-
Contingency fund	-	-	-	-	-
Total	<u>891,283</u>	<u>871,226</u>	<u>(20,057)</u>	<u>480,446</u>	
Tax					
Capital expenditures					
Furniture and office equipment	-	-	-	-	-
Maintenance and repairs	-	-	-	-	-
Personnel services	-	-	-	-	-
Special services	14,402	13,380	(1,022)	14,320	-
Supplies and materials	-	-	-	-	-
Utilities	-	-	-	-	-
Total	<u>14,402</u>	<u>13,380</u>	<u>(1,022)</u>	<u>14,320</u>	
Community Services					
Capital expenditures					
Furniture and office equipment	2,000	1,955	(45)	12,874	-
Instruments	-	-	-	-	-
Buildings and structures	-	-	-	-	-
Capital outlay, capital lease	-	-	-	-	-
Maintenance and repairs	4,200	3,879	(321)	4,019	-
Personnel services	221,303	220,205	(1,098)	206,190	-
Special services	24,925	14,198	(10,727)	15,279	-
Supplies and materials	8,350	5,875	(2,475)	6,256	-
Utilities	8,200	7,740	(460)	7,985	-
Compensated absences	-	-	-	-	-
Total	<u>268,978</u>	<u>253,852</u>	<u>(15,126)</u>	<u>252,603</u>	

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance -	September 30, 2009
	Final Budget	Actual	Over (Under) Budget	Actual
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Judicial				
Capital expenditures				
Furniture and office equipment	\$ 3,510	\$ 2,300	\$ (1,210)	\$ -
Machinery, tools, and equipment	1,500	-	(1,500)	-
Capital outlay, capital lease	-	-	-	21,748
Motor vehicles	7,551	8,079	528	7,551
Maintenance and repairs	3,425	2,345	(1,080)	4,106
Personnel services	189,249	188,929	(320)	172,214
Special services	45,198	42,058	(3,140)	44,388
Supplies and materials	10,450	11,075	625	11,080
Utilities	2,740	2,908	168	2,870
Compensated absences	-	-	-	-
Total	<u>263,623</u>	<u>257,694</u>	<u>(5,929)</u>	<u>263,957</u>
Police				
Capital expenditures				
Furniture and office equipment	20,000	19,925	(75)	27,347
Instruments	9,100	11,690	2,590	16,136
Machinery, tools and equipment	-	-	-	-
Motor vehicle - patrol cars	84,872	109,640	24,768	73,435
Seized/Awarded vehicle	10,915	10,915	-	5,875
Vehicle - private citizen donation	-	-	-	4,735
Capital lease equipment	-	-	-	-
Capital outlay, capital lease	94,668	94,668	-	32,022
Maintenance and repairs	52,000	47,591	(4,409)	46,608
Personnel services	1,747,968	1,741,191	(6,777)	1,486,265
Special services	24,778	21,049	(3,729)	19,697
Supplies and materials	136,159	103,841	(32,318)	109,526
Utilities	27,600	25,778	(1,822)	27,906
Compensated absences	-	-	-	-
Total	<u>2,208,060</u>	<u>2,186,288</u>	<u>(21,772)</u>	<u>1,849,552</u>
Fire Marshal				
Capital expenditures				
Furniture and office equipment	-	-	-	-
Instruments	-	-	-	-
Buildings and structures	-	-	-	-
Maintenance and repairs	2,300	2,182	(118)	1,318
Personnel services	8,060	7,295	(765)	6,488
Special services	600	396	(204)	258
Supplies and materials	2,350	1,879	(471)	3,079
Utilities	700	587	(113)	581
Total	<u>14,010</u>	<u>12,339</u>	<u>(1,671)</u>	<u>11,724</u>

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance - Over (Under) Budget	September 30, 2009	
	Final Budget	Actual		Budget	Actual
PRIMARY GOVERNMENT:					
GENERAL FUND (Continued)					
Public Safety					
Special services	\$ 54,290	\$ 52,892	\$ (1,398)	\$ 68,484	
Utilities	1,000	105	(895)	998	
Personnel services	1,000	602	(398)	-	
Supplies and materials	800	-	(800)	300	
Total	57,090	53,599	(3,491)	69,782	
Library					
Capital expenditures					
Furniture and office equipment	1,042	-	(1,042)	-	
Instruments	-	-	-	-	
Buildings and structures	-	-	-	-	
Machinery, tools and equipment	9,782	8,444	(1,338)	3,860	
Capital outlay, capital lease	24,177	24,177	-	-	
Maintenance and repairs	6,500	3,715	(2,785)	7,518	
Personnel services	148,270	139,406	(8,864)	134,396	
Special services	13,860	12,907	(953)	7,967	
Supplies and materials	23,692	22,654	(1,038)	21,656	
Utilities	14,727	12,052	(2,675)	16,315	
Compensated absences	-	-	-	-	
Total	242,050	223,355	(18,695)	191,712	
Streets					
Capital expenditures					
Furniture and office equipment	-	-	-	-	
Buildings and structures	-	-	-	-	
Roller	-	-	-	-	
Machinery, tools and equipment	-	-	-	-	
Motor vehicles - other	-	-	-	2,880	
Motor vehicles - gradall	50,146	50,146	-	50,146	
Motor vehicles - dump trucks	41,661	41,661	-	17,472	
Motor vehicles - slope mower	64,768	64,768	-	42,015	
Motor vehicles - side mower	-	-	-	-	
Motor vehicles - wheel loader	-	-	-	-	
Motor vehicles - motorgrader	-	-	-	-	
Street improvements	200,000	198,767	(1,233)	188,443	
Streets infrastructure - contributions	-	317,271	317,271	156,000	
Drainage infrastructure - contributions	-	-	-	-	
Capital outlay, capital lease	120,589	120,589	-	-	
Maintenance and repairs	80,800	74,534	(6,266)	61,258	
Personnel services	433,783	416,030	(17,753)	394,754	
Special services	3,400	2,754	(646)	1,731	
Supplies and materials	57,000	48,652	(8,348)	47,570	
Utilities	38,550	34,885	(3,665)	36,246	
Compensated absences	-	-	-	-	
Total	1,090,697	1,370,057	279,360	998,515	

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance - Over (Under) Budget	September 30, 2009 Actual
	Final Budget	Actual		
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Parks				
Capital expenditures				
Buildings and structures	\$ 20,000	\$ 19,785	\$ (215)	\$ 2,852
Motor vehicles	-	-	-	12,075
Tractors/mowers	7,300	5,022	(2,278)	-
Capital outlay, capital lease	14,379	14,379	-	-
Maintenance and repairs	7,870	7,104	(766)	5,439
Personnel services	65,263	48,443	(16,820)	51,266
Special services	495	355	(140)	639
Supplies and materials	25,140	19,114	(6,026)	15,708
Utilities	2,550	1,620	(930)	1,649
Compensated absences	-	-	-	-
Total	<u>142,997</u>	<u>115,822</u>	<u>(27,175)</u>	<u>89,628</u>
Special Projects				
Special services	-	-	-	-
Supplies and materials	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Community Center				
Capital expenditures				
Furniture and office equipment	-	-	-	-
Buildings and structures	-	-	-	-
Machinery, tools and equipment	-	-	-	-
Maintenance and repairs	3,270	3,164	(106)	2,700
Personnel services	3,245	3,120	(125)	3,005
Special services	1,175	535	(640)	611
Supplies and materials	1,875	1,755	(120)	3,511
Utilities	9,100	9,016	(84)	8,472
Total	<u>18,665</u>	<u>17,590</u>	<u>(1,075)</u>	<u>18,299</u>
HOME Investment Partnerships Program				
Project construction costs	-	-	-	17,309
Administrative	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,309</u>
Texas Community Development Block Grant Supplemental Fund Program				
Water facilities	28,054	28,054	-	-
Rehabilitation of private properties	-	-	-	-
Engineering/Architectural	10,441	10,441	-	9,259
General administration	3,000	3,000	-	-
Total	<u>41,495</u>	<u>41,495</u>	<u>-</u>	<u>9,259</u>

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance - Over (Under) Budget	September 30, 2009	
	Final Budget	Actual		Actual	
PRIMARY GOVERNMENT:					
GENERAL FUND (Continued)					
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program					
Personnel costs	\$ -	\$ -	\$ -	\$ -	4,415
Fringe benefits	-	-	-	-	348
Travel	-	-	-	-	-
Supplies	-	-	-	-	1,878
Consultants/Contracts	-	-	-	-	4,200
Other	-	-	-	-	147,911
Total	-	-	-	-	158,752
Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #DRS010168 - Round 1					
Water facilities	-	-	-	-	-
Sewer facilities	-	-	-	-	-
Engineering	-	-	-	-	-
Planning/Project delivery	-	-	-	-	-
Total	-	-	-	-	-
TOTAL - GENERAL FUND	5,253,350	5,416,697	163,347		4,425,858
SPECIAL REVENUE FUND					
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program					
Personnel costs	-	-	-	-	36,000
Fringe benefits	-	-	-	-	4,213
Travel	-	-	-	-	3,469
Supplies	-	-	-	-	3,663
Consultants/Contracts	-	-	-	-	50,323
Equipment	-	-	-	-	-
Other	-	-	-	-	845
Total	-	-	-	-	98,513
HOME Investment Partnerships Program					
Administrative costs	-	-	-	-	7,200
Project construction costs	-	-	-	-	180,000
Total	-	-	-	-	187,200

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance - Over (Under) Budget	September 30, 2009	
	Final Budget	Actual		Budget	Actual
PRIMARY GOVERNMENT:					
SPECIAL REVENUE FUND (Continued)					
Federal Emergency Management Public Assistance Grant (FEMA); Hurricane Ike					
Maintenance and repairs	\$ -	\$ -	\$ -	\$ -	30,904
Personnel services	-	-	-	-	29,280
Special services	-	-	-	-	1,055,744
Supplies and materials	-	-	-	-	-
Total	-	-	-	-	1,115,928
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program					
Water facilities	131,189	131,189	-	-	108,775
Rehabilitation of private properties	10,289	10,289	-	-	-
Engineering / Architectural	6,700	6,700	-	-	42,300
General administration	5,275	5,325	50	-	30,175
Total	153,453	153,503	50	-	181,250
Federal Highway Administration (FHWA) Emergency Relief (ER) Program - Hurricane Ike					
Special services	-	-	-	-	72,206
Total	-	-	-	-	72,206
Selective Traffic Enforcement Program (STEP)					
Personnel services	-	-	-	-	12,974
Total	-	-	-	-	12,974
Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #DRS010168 - Round 1					
Water facilities	507	507	-	-	-
Sewer facilities	30,000	-	(30,000)	-	-
Engineering	144,286	122,116	(22,170)	-	-
Planning/Project delivery	74,956	71,458	(3,498)	-	-
Total	249,749	194,081	(55,668)	-	-
TOTAL - SPECIAL REVENUE FUND	403,202	347,584	(55,618)		1,668,071
Total Expenditures - Primary Government All Funds and Departments	5,656,552	5,764,281	107,729		6,093,929
(Continued)					

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2009

	September 30, 2010		Variance - Over (Under) Budget	September 30, 2009 Actual
	Final Budget	Actual		
COMPONENT UNIT:				
GENERAL FUND				
Administration				
Capital expenditures				
Infrastructure improvements	\$ 713,236	\$ 698,086	\$ (15,150)	\$ 213,832
Personnel services	16,000	15,020	(980)	15,350
Special services	25,062	22,873	(2,189)	43,417
Supplies and materials	700	432	(268)	250
Total	<u>754,998</u>	<u>736,411</u>	<u>(18,587)</u>	<u>272,849</u>
<i>Total Expenditures - Component Unit All Funds and Departments</i>	<u>754,998</u>	<u>736,411</u>	<u>(18,587)</u>	<u>272,849</u>
<i>Total Expenditures - Reporting Entity All Funds and Departments</i>	<u>\$ 6,411,550</u>	<u>\$ 6,500,692</u>	<u>\$ 89,142</u>	<u>\$ 6,366,778</u>

GOVERNMENT AUDITING STANDARDS REPORT



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 28, 2011. 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

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

July 28, 2011