

CITY OF SANTA FE, Texas

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

CITY OF SANTA FE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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 56
Special Revenue Funds:	
HOME Investment Partnerships Program	2 58
Texas Community Development (TxCDBG) - Disaster Recovery Grant Program - Contract #GLO10-5184-000-5167 - Round 1	3 59
Energy Efficiency & Conversation Block Grant (EECBG) Program - American Recovery & Reinvestment Act (ARRA) - Contract #CS0362	4 60
Notes to Required Supplementary Information	61
Schedule of Funding Progress - Texas Municipal Retirement System	5 62
Other Supplementary Information:	<u>Schedule</u>
Schedule of Temporary Investments	1 63
Analysis of Taxes Receivable	2 64
City Council, Key Administrative Personnel and Legal Council	3 65
Schedule of Expenditures Compared to Budget	4 66
Federal Awards Section:	
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
Independent Auditor's Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	74
Schedule of Expenditures of Federal Awards	76
Notes to Schedule of Expenditures of Federal Awards	77
Schedule of Findings and Questioned Costs	78
Corrective Action Plan	79

INTRODUCTORY SECTION

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**CITY OF SANTA FE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

CITY COUNCIL

Ralph Stenzel	Mayor
Jim Abney	Mayor Pro-Tem
Jeff Tambrella	Council Member
Pat McCrary	Council Member
Joe Carothers	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, 2011, 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.

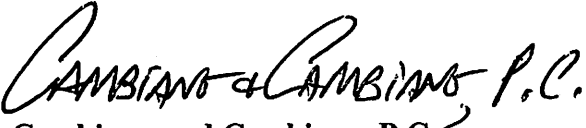
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2012 on our consideration of the City of Santa Fe, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, budgetary comparison information on pages 56 through 61, and the schedule of funding progress on page 62, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section on page 1 and other supplementary information included on pages 63 through 71 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, included on page 76, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The introductory and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.


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

June 12, 2012

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

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, 2011. 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, 2011 by \$20,106,641 (net assets). Of this amount, \$811,602 (unrestricted net assets) may be used to meet the government's ongoing obligations in accordance with the City's fund designation and fiscal policies, \$323,272 is for restricted uses, and \$18,971,767 are capital assets, net of related debt.
- The City's total net assets decreased by \$202,549 compared to a decrease of \$461,057 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 \$1,522,065, a decrease of \$95,063 from the prior year. Of this amount, \$1,198,793 is available for use at the City's discretion.
- The City's total capital lease debt increased by a net of \$120,862 during the current fiscal year due to the incurring of new debt of \$267,694 less principal payments of \$146,832.

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, 2011**

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, 2011**

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 55.

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 56 through 62 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 63 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 \$20,106,641 at the close of the current fiscal year.

As shown in Table 1, as of September 30, 2011, the largest portion of the City's net assets (94.4%) 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, 2011**

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 2,758,822	\$ 2,572,426
Capital assets	<u>19,267,514</u>	<u>19,193,095</u>
Total Assets	<u>22,026,336</u>	<u>21,765,521</u>
Current and other liabilities	1,080,124	785,356
Long-term liabilities	<u>839,571</u>	<u>670,975</u>
Total Liabilities	<u>1,919,695</u>	<u>1,456,331</u>
Net Assets:		
Invested in capital assets, net of related debt	18,971,767	19,018,211
Restricted	323,272	284,623
Unrestricted	<u>811,602</u>	<u>1,006,356</u>
Total Net Assets	<u>\$ 20,106,641</u>	<u>\$20,309,190</u>

Governmental type activities decreased the City's net assets by \$202,549 during the current fiscal year. The following table provides a summary of the City's operations for the year ended September 30, 2011.

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2011**

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues:		
Program revenues:		
Charges for services	\$ 416,165	\$ 499,323
Operating grants and contributions	58,117	452,462
Capital grants and contributions	1,895,600	328,186
General revenues:		
Property taxes	1,654,718	1,549,686
Sales tax	1,327,302	1,323,135
Franchise tax and contract fees	704,276	676,284
Investment earnings	7,847	6,319
Penalties and interest on property taxes	35,827	21,461
Gain (loss) on sale of capital assets	(12,537)	(38,145)
Other	5,896	13,482
Total Revenues	<u>6,093,211</u>	<u>4,832,193</u>
Expenses:		
General government administration	532,524	556,082
Tax	14,233	13,380
Community service	284,622	272,550
Judicial/Police	2,330,072	2,356,463
Fire marshal	14,366	15,288
Public safety	53,108	53,598
Library	204,607	208,000
Streets	1,363,547	1,309,053
Parks	107,174	87,827
Community center	23,896	23,232
Interest on long-term debt	6,515	8,698
Interest on short-term borrowings	-	-
Home Investment Partnerships Program	-	-
Texas Community Development Block Grant (TxCDBG); Disaster Recovery Grant Program; Contract #GLO10-5184-000-5167 - Round 1	1,359,596	194,081
Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362	1,500	-
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	-	194,998
Total Expenses	<u>6,295,760</u>	<u>5,293,250</u>
Increase(decrease) in net assets	(202,549)	(461,057)
Net assets at beginning of year	<u>20,309,190</u>	<u>20,770,247</u>
Net assets at end of year	<u>\$ 20,106,641</u>	<u>\$ 20,309,190</u>

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2011**

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

- Program revenues of \$2,369,882 equaled 37.6% of government expenses of \$6,295,760. As expected, general revenues (\$3,723,329) provided the required support and coverage for expenses. Property taxes, sales taxes, and franchise and contract fees provided a majority of the general revenues.
- A majority of the expenses are judicial/police (\$2,330,072), while this category provided about 4.2% of the total revenues of \$6,093,211. The majority of the expenses in this category were incurred for salary & benefits (\$1,964,016) and supplies and materials (\$116,584).
- The next largest category of expenses is streets (\$1,363,547) at 21.7%. The more significant expenses in this category are related to salary and benefits (\$421,782), maintenance and repairs (\$77,438), and depreciation (\$756,666).
- 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 \$1,522,065, a decrease of \$95,063 in comparison with the prior year. Approximately 79% of this amount (\$1,198,793) 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 (\$304,934) and library expansion (\$18,338).

The fund balance of the City's General Fund decreased by \$95,063 during the current fiscal year. Key factors are as follows:

- \$368,395 in expenditures over revenues – revenues were \$203,179 more than in the prior year. A majority of this increase was a result of an increase in property tax revenues of \$99,827, franchise and contract fees of \$24,554, and intergovernmental revenues of \$248,473. The

CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2011

increase in governmental revenues was a result of streets and street improvement contributions from the County of Galveston. Sales tax, interest income, and penalty and interest on property taxes generated slightly more income than the prior year. Revenue decreases were noted from licenses and permits (\$53,021) and municipal fines and cash bond forfeits (\$38,565). Expenditures were \$304,880 less than the prior year. Significant expenditure decreases were related to general government administration (\$23,194), capital expenditures (\$185,444), principal retirement of debt (\$128,714), and the local match on federal grants (\$41,495). Slight expenditure increases were noted in judicial/police (\$12,310), community services (\$19,946), streets (\$23,657), and parks (\$19,496).

- \$273,417 in other financing sources – this resulted from an on-line public auction that generated \$5,637 from the sale of old declared surplus property and \$267,695 from capital lease proceeds.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

- A net increase in the revenue budget of \$174,974. Budget increases were related to municipal fines and cash bonds (\$3,017), intergovernmental revenues (\$176,370), and other revenues (\$4,467). The increase related to intergovernmental revenues resulted from streets and street improvement contributions from the County of Galveston. The budget related to licenses and permits was decreased by \$8,880.
- The other financing sources had an increase of \$128,607. This increase is attributed to an increase in capital lease contracts of \$122,970 and proceeds from the sale of capital assets of \$5,637, as Council decided to sell old surplus property.
- A net increase in the budget for expenditures of \$303,581. Some of the significant increases can be summarized as follows:

Library – an increase of \$6,972. This increase was the result of additional online book subscriptions and supplies purchased.

Streets – an increase of \$9,653. Most of this increase was a result of additional funds needed to cover equipment maintenance expenses and a drainage study on 4½ Street near Bruce Hall Road.

CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2011

Parks – an increase of \$11,302. Landscaping materials and a 20 stage fitness trail did not meet the criteria for a capital expenditure. Therefore, these amounts were moved from capital expenditures to supplies and materials expenditures.

Capital expenditures – an increase of \$274,690. Most of this increase was the result of new capital purchases from other financing source proceeds of \$122,970 and \$170,817 of street improvements to 28th Street and Avenue M performed by the County of Galveston and contributed to the City of Santa Fe. Various decreases amounting to \$20,182 moved budgeted items from capital expense to supplies and materials expense.

Debt service – principal retirement – an increase of \$5,009. Amount originally budgeted as vehicle expense was moved to cover principal payment on vehicle capital outlay.

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

- Actual General Fund Revenues of \$4,743,422 exceeded budgeted revenues of \$4,383,539 by \$359,883. Actual revenues exceeding the final budget were generated by additional property taxes (\$18,133), licenses and permits (\$23,923), penalty and interest on property taxes (\$7,249), other revenues (\$8,676), and intergovernmental revenues (\$364,306). The majority of the intergovernmental revenues were in the form of streets and street improvement contributions from the County of Galveston. The actual other financing sources of \$273,417 were less than the budgeted amount of \$394,549 by \$121,132. This was the result of more actual lease purchase contracts than was budgeted of \$144,725 and less actual appropriated fund balance of \$265,942 than needed.
- Actual expenditures of \$5,111,817 were more than final budgeted expenditures of \$4,778,088 by \$333,729. All departments' actual expenses were under the final budget except the expenditures related to capital. The actual capital expenditures exceeded the final budget by \$499,297. A majority of this amount was related to street infrastructure. These street infrastructures were in the form of contributions from the County of Galveston.
- Final budgeted amounts projected no increase or decrease in fund balance. The actual net change in fund balance was a decrease of \$94,978.

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, 2011, amounts to \$19,267,514, 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, 2011**

Table 3 - Capital Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 574,548	\$ 574,548
Buildings	681,068	681,068
Building improvements	283,445	222,912
Computers	304,139	257,479
Equipment	1,132,066	1,117,009
Furniture and fixtures	14,606	12,464
Improvements (other than buildings)	92,099	92,099
Infrastructure	26,845,854	26,480,667
Infrastructure improvements	3,775,576	3,431,231
Radios	191,986	47,261
Vehicles	647,590	705,118
Total Capital Assets	34,542,977	33,621,856
Less: Accumulated depreciation	(15,275,463)	(14,428,760)
Total capital assets, net of depreciation	<u>\$ 19,267,514</u>	<u>\$ 19,193,096</u>

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

- The General Fund purchased capital assets during the 2010-2011 fiscal year amounting to \$990,400. The more significant purchases were infrastructure improvements (\$173,528), police department vehicle 2006 Dodge Durango (\$11,750), computer software for the court system (\$32,745), 22 portable and 14 digital radios (\$144,725), in-car video cameras for three police vehicles (\$15,057), laptop computers (\$14,668), and a metal building for the street department (\$60,500).
- The City also received \$536,004 in capital asset contributions. Streets and street improvements were contributed to the City from the County of Galveston.

Additional information on the City of Santa Fe's capital assets can be found in Note 4 on pages 37 through 38 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 \$958,925 at September 30, 2011. The total amount was in governmental activities. The capital lease obligations increased \$120,862 in the year ending September 30, 2011. This was a net result of new financing of \$267,694 and principal debt payments of \$146,832. The compensated absences had a net increase of \$35,404. The City has not

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2011**

been able to contribute the full retirement rate for the fiscal year end 2009 through 2011. This created an actual contribution that was less than the actuarially determined annual required contribution (ARC), and therefore, a net pension obligation of \$111,345 has been created.

Table 4 -Long-Term Debt

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Capital leases	\$ 295,746	\$ 174,884
Compensated absences	551,834	516,430
Net pension obligation	111,345	84,480
Total long-term debt	<u>\$ 958,925</u>	<u>\$ 775,794</u>

Additional information on the City of Santa Fe's long-term debt can be found in Note 5 on pages 38 through 39 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 2011-2012 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 2011 tax rate remained the same as the 2010 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 2011 is \$561,260,791, an increase of \$14,815,541 from last year's value of \$546,445,250. The value of new improvements and new personal property located in the City is \$5,859,182 constituting approximately 40 percent of the increase in taxable value. Land values decreased slightly by \$575,290, less than one-half percent from the 2010 value of \$178,857,032, and the homestead cap adjustment for 2011 was \$4,752,687, compared to the 2010 cap of \$13,021,097. 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 \$85,976,473 or approximately 15 percent of the taxable value, as compared to last year's value of \$81,282,248, or 15 percent of the taxable value.
- The City's second largest source of revenue in the general fund is sales tax. The city projects a marginal decrease from the prior year budget of \$1,350,000, to \$1,305,000, approximately 3 percent.

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2011**

- Other significant general revenues are building and permit fees and municipal court fines. The budget projection for license and permit fees for 2011-2012, excluding community park fee revenue and related projects, is expected to increase 3 percent from \$131,800, to \$135,900, consisting entirely of an increase in development-related fees of \$124,500, as compared to \$119,000 from development fees projected in fiscal year 2010-2011. Municipal court fine budgeted revenues are expected to remain the same at \$250,000, even as new technology and credit card services have been implemented in an effort to improve long-term collections.
- Budgeted interest earnings are projected to increase by more than 66 percent from 2010-2011 from \$6,000 to \$10,000 as the global economic downturn remains in force but longer-term investment instruments are utilized to improve yield.
- For the 2011-2012 fiscal year, the City appropriated \$304,934 of the available fund balance for general fund spending. This leaves \$1,178,245 in estimated reserves, which is about 26 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 \$1,133,015 for the 2011-2012 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 \$1,178,245 at September 30, 2012, a 6 percent decrease from last year's projection of \$1,253,517.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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CITY OF SANTA FE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

STATEMENT 1

	Primary Government		Component Unit - Santa Fe Economic Development Corporation
	Governmental		
	Activities	Total	
ASSETS			
Cash and cash equivalents	\$ 804,030	\$ 804,030	\$ 674,989
Investments:			
Tex Pool	60,043	60,043	223,403
Logic	131,493	131,493	-
Receivables, net where applicable of allowance for uncollectibles:			
Property taxes, net	224,952	224,952	-
Municipal court assessments, net	68,547	68,547	-
Other	1,122,857	1,122,857	417,315
Restricted assets:			
Cash and cash equivalents:			
Library expansion	18,338	18,338	-
Special purpose funds	212,262	212,262	-
Refundable deposits	116,300	116,300	-
Capital assets:			
Nondepreciable	574,548	574,548	23,800
Depreciable, net of accumulated depreciation	18,692,966	18,692,966	-
Construction in progress	-	-	347,216
Total Assets	22,026,336	22,026,336	1,686,723
LIABILITIES			
Accounts payable	507,722	507,722	125
Accrued salaries	86,611	86,611	-
Accrued payroll taxes	11,833	11,833	-
Refundable deposits	116,300	116,300	-
Deferred revenues:			
PG&E Pipeline settlement	19,250	19,250	-
Special purpose funds	212,262	212,262	-
Other	6,792	6,792	-
Noncurrent liabilities:			
Due within one year	119,354	119,354	-
Due in more than one year	839,571	839,571	-
Total Liabilities	1,919,695	1,919,695	125
NET ASSETS			
Invested in capital assets, net of related debt	\$ 18,971,767	\$ 18,971,767	\$ 371,016
Restricted for:			
Future budget requirements	304,934	304,934	-
Library expansion	18,338	18,338	-
Infrastructure improvements	-	-	1,315,582
Unrestricted	811,602	811,602	-
Total Net Assets (Deficit)	\$ 20,106,641	\$ 20,106,641	\$ 1,686,598

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government administration	\$ 532,524	\$ 27,949	\$ 652	\$ -
Tax	14,233	-	-	-
Community services	284,622	166,843	-	-
Judicial/Police	2,330,072	210,492	48,352	-
Fire Marshal	14,366	-	-	-
Public safety	53,108	-	-	-
Library	204,607	2,992	7,613	-
Streets	1,363,547	2,969	-	536,004
Parks	107,174	210	-	-
Community center	23,896	4,710	-	-
Interest on long term debt	6,515	-	-	-
Texas Community Development Block Grant (TxCDBG); Disaster Recovery Grant Program; Contract #GLO10-5184-000-5167-Round 1	1,359,596	-	-	1,359,596
Texas Comptroller of Public Accounts (CPA); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362	1,500	-	1,500	-
Total Primary Government Governmental Activities	\$ 6,295,760	\$ 416,165	\$ 58,117	\$ 1,895,600
Component Unit				
Santa Fe Economic Development Corporation	\$ 424,039	\$ -	\$ -	\$ 334,287
Total Component Unit Governmental Activities	\$ 424,039	\$ -	\$ -	\$ 334,287

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>	
\$ (503,923)	\$ (503,923)	\$ -	-
(14,233)	(14,233)	-	-
(117,779)	(117,779)	-	-
(2,071,228)	(2,071,228)	-	-
(14,366)	(14,366)	-	-
(53,108)	(53,108)	-	-
(194,002)	(194,002)	-	-
(824,574)	(824,574)	-	-
(106,964)	(106,964)	-	-
(19,186)	(19,186)	-	-
(6,515)	(6,515)	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>(3,925,878)</u>	<u>(3,925,878)</u>	<u>-</u>	<u>-</u>
-	-	-	-
-	-	-	-
-	-	(89,752)	-
-	-	(89,752)	-
1,654,718	1,654,718	-	-
1,327,302	1,327,302	442,434	-
704,276	704,276	-	-
23	23	-	-
7,824	7,824	9,279	-
35,827	35,827	-	-
(12,537)	(12,537)	-	-
5,896	5,896	-	-
-	-	-	-
<u>3,723,329</u>	<u>3,723,329</u>	<u>451,713</u>	-
(202,549)	(202,549)	361,961	-
<u>20,309,190</u>	<u>20,309,190</u>	<u>1,324,637</u>	-
<u>\$ 20,106,641</u>	<u>\$ 20,106,641</u>	<u>\$ 1,686,598</u>	-

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>Special Revenue Funds</u>	
	Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	
	<u>General Fund</u>	<u>Partnerships Program</u>
ASSETS		
Cash and cash equivalents	\$ 804,030	\$ -
Investments:		
Tex Pool	60,043	-
Logic	131,493	-
Receivables, net where applicable of allowance for uncollectibles:		
Property taxes, net	224,952	-
Municipal court assessments, net	68,547	-
Due from other governments	716,305	-
Other	406,553	-
Restricted assets:		
Cash and cash equivalents:		
Library expansion	18,338	-
Special purpose funds	212,262	-
Refundable deposits	116,300	-
Total Assets	\$ 2,758,823	\$ -
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable	\$ 507,722	\$ -
Accrued salaries	86,611	-
Accrued payroll taxes	11,833	-
Refundable deposits	116,300	-
Deferred revenues:		
Property taxes	215,822	-
Municipal court assessments	60,166	-
PG&E Pipeline settlement	19,250	-
Special purpose funds	212,262	-
Other	6,792	-
Total liabilities	1,236,758	-
Fund Balances		
Restricted for:		
Library expansion	18,338	-
Assigned to:		
Future budget requirements	304,934	-
Unassigned	1,198,793	-
Total fund balances	1,522,065	-
Total Liabilities and Fund Balances	\$ 2,758,823	\$ -

See accompanying notes to basic financial statements.

STATEMENT 3

<u>Special Revenue Funds</u>		
Texas General Land Office (GLO); Community Development Block Grant Program; Contract #GLO10-5184-000-5167 - Round 1	Texas Comptroller of Public Accounts (CPA); State Energy Conservation Office (SECO); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362	Total Governmental Funds
\$	-	\$ 804,030
	-	60,043
	-	131,493
	-	224,952
	-	68,547
	-	716,305
	-	406,553
	-	18,338
	-	212,262
	-	116,300
<u>\$</u>	<u>\$</u>	<u>\$ 2,758,823</u>
\$	-	\$ 507,722
	-	86,611
	-	11,833
	-	116,300
	-	215,822
	-	60,166
	-	19,250
	-	212,262
	-	6,792
	-	1,236,758
	-	18,338
	-	304,934
	-	1,198,793
	-	1,522,065
<u>\$</u>	<u>\$</u>	<u>\$ 2,758,823</u>

See accompanying notes to basic financial statements.

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CITY OF SANTA FE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

STATEMENT 4

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,522,065

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

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

Capital assets	\$ 34,542,976	
Less: Accumulated depreciation	<u>(15,275,463)</u>	19,267,513

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.

275,988

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	295,746	
Compensated absences payable	551,834	
Net pension obligation	<u>111,345</u>	<u>(958,925)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES
IN THE STATEMENT OF NET ASSETS

\$ 20,106,641

CITY OF SANTA FE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Special Revenue Funds

	<u>General Fund</u>	<u>Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program</u>	<u>Texas General Land Office (GLO); Community Development Block Grant - Disater Recovery Program; Contract #GLO10-5184-000-5167- Round 1</u>
Revenues			
Taxes:			
Property	\$ 1,654,998	\$ -	\$ -
Franchise and contract fees	708,713	-	-
Sales tax	884,868	-	-
Sales tax - property tax reduction	442,434	-	-
Licenses and permits	166,843	-	-
Municipal fines and cash bond forfeits	212,251	-	-
Intergovernmental revenues	601,576	-	1,359,596
Interest income	7,847	-	-
Penalty and interest, property taxes	32,249	-	-
Other revenues	31,643	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	4,743,422	-	1,359,596
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
General government administration	512,125	-	-
Tax	14,233	-	-
Community services	271,843	-	-
Judicial/Police	2,199,076	-	-
Fire Marshal	11,853	-	-
Public Safety	53,108	-	-
Library	190,937	-	-
Streets	600,512	-	-
Parks	96,131	-	-
Community center	18,252	-	-
Capital expenditures	990,400	-	-
Debt service:			
Principal retirement	146,832	-	-
Interest	6,515	-	-
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	-	-	-

(Continued)

STATEMENT 5

Special Revenue Funds		Total Governmental Funds
Texas Comptroller of Public Accounts (CPA); State Energy Conservation Office (SECO); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362		
\$ -	-	\$ 1,654,998
	-	708,713
	-	884,868
	-	442,434
	-	166,843
	-	212,251
1,500	-	1,962,672
	-	7,847
	-	32,249
	-	31,643
1,500		6,104,518

-	512,125
-	14,233
-	271,843
-	2,199,076
-	11,853
-	53,108
-	190,937
-	600,512
-	96,131
-	18,252
-	990,400
-	146,832
-	6,515

-

CITY OF SANTA FE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Special Revenue Funds

	<u>General Fund</u>	<u>Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program</u>	<u>Texas General Land Office (GLO); Community Development Block Grant - Disater Recovery Program; Contract #GLO10-5184-000-5167- Round 1</u>
Texas General Land Office (GLO); Community Development Block Grant - Disaster Recovery Program; Contract #GLO10-5184-000-5167 - Round 1			
Water facilities	\$ -	\$ -	\$ 906,636
Sewer facilities	-	-	219,864
Engineering	-	-	157,308
Planning/Project delivery	-	-	75,788
Texas Comptroller of Public Accounts (CPA); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362			
Administration/Consultant Subcontractor	-	-	-
Total expenditures	5,111,817	-	1,359,596
Excess (deficiency) of revenues over (under) expenditures	(368,395)	-	-
Other Financing Sources (Uses):			
Transfer in	1,585	-	-
Transfer out	(1,500)	(85)	-
Proceeds from sale of capital assets	5,637	-	-
Capital lease contracts	267,695	-	-
Total other financing sources (uses)	273,417	(85)	-
Net change in fund balances	(94,978)	(85)	-
Fund balances at beginning of year	1,617,043	85	-
Fund balances at end of year	\$ 1,522,065	\$ -	\$ -

See accompanying notes to basic financial statements.

STATEMENT 5

Special Revenue Funds	Total Governmental Funds
Texas Comptroller of Public Accounts (CPA); State Energy Conservation Office (SECO); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362	
\$ -	\$ 906,636
-	219,864
-	157,308
-	75,788
1,500	1,500
-	-
1,500	6,472,913
-	(368,395)
1,500	3,085
(1,500)	(3,085)
-	5,637
-	267,695
-	273,332
-	(95,063)
-	1,617,128
\$ -	\$ 1,522,065

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, 2011

STATEMENT 6

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (95,063)

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	\$ 990,400	
Deduct: Depreciation expense	<u>(897,808)</u>	92,592

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	3,299	
Municipal court assessments	<u>(2,070)</u>	1,229

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. (267,695)

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. 146,832

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	(35,404)	
Net pension obligation	<u>(26,866)</u>	(62,270)

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	(69,279)	
Accumulated depreciation of assets disposed	<u>51,105</u>	<u>(18,174)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (202,549)

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 10 of the Notes to Basic Financial Statements. The discretely presented component unit has a September 30 year end and only has governmental activities.

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

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

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

B. Basic Financial Statements

General

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

Government-Wide Statements:

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

The government-wide Statement of Activities also reports on all the non-fiduciary activities of the primary government and its legally separate component unit. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. The City does not allocate indirect costs. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the Government-wide financial statements. The City has presented all major funds that meet the qualifications of GASB Statement No. 34. In addition, the City has also presented all special revenue funds as major funds because the City believes the financial position and activities of these funds is significant since they are funded by federal grant money. The City will report the General Fund and the Special Revenue Funds as major funds, no non-major funds exist to be aggregated into a single column called "Other Governmental Funds."

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Government-Wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred; regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met.

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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.

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

State Energy Conservation Office (SECO), Energy Efficiency and Conservation Block Grant (EECBG) Program – allocated under the American Recovery and Reinvestment Act (ARRA) – Contract #CS0362 – this special revenue fund will retrofit City facilities by purchasing and installing energy efficient HVAC systems, including necessary updates to ducts, insulation, dampers, and air registers, and replace inefficient lighting fixtures throughout city hall.

D. Cash and Cash Equivalents

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011 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	\$ 163,079	\$ 25,376	\$ 137,703
Property taxes - penalty and interest	115,755	28,506	87,249
Municipal court assessments	685,468	616,921	68,547
Due from other governments - specific program grants	716,305	-	716,305
Other:			
Franchise and contract fees	72,144	-	72,144
Sales tax	332,114	-	332,114
Miscellaneous	2,295	-	2,295
	<u>2,087,160</u>	<u>670,803</u>	<u>1,416,357</u>
Total	\$ 2,087,160	\$ 670,803	\$ 1,416,357

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.

H. Capital Assets

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

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011 in the government-wide and governmental fund financial statements are 56% vendors, 30% specific program grants, 9% employer and employee retirement contributions, and 5% municipal court state costs collected and due to the State Treasurer.

J. Interfund Receivables, Payables, and Transfers

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

K. Compensated Absences

Annual vacation leave, according to a graduated scale based on years of employment, or Section 143.046 of the Texas Local Government Code for collective bargaining personnel, is credited to employees on a pro-rata basis at the beginning of each month. While it is the intent of the City that all earned vacation will be taken by the employee within the twelve month period of the employee's anniversary date, unused vacation hours can be deferred beyond the twelve month period subject to approval by appropriate management. Earned but unused vacation is normally paid to the employee in cases of resignation, retirement, or death.

Sick leave benefits are also provided to all eligible, regular employees at a rate of eight hours per month of service, or ninety six hours per year, for employees not covered by collective bargaining. Collective bargaining employees accumulate sick leave in accordance with the provisions of Section 143.045 of the Texas Local Government Code. Eligible part-time employees accrue sick leave benefits at one-half the rate of full time employees. Unused sick leave benefits are allowed to accumulate to a maximum of 180 days; however, collective bargaining employees may accumulate sick leave without limit. Upon termination of an employee in good standing, the payment of accrued sick leave benefits may be authorized up to one-third of the lesser of (a) the accumulated, unused sick leave, or (b) ninety days. Collective bargaining employees who leave service for any reason are entitled to a lump-sum payment of the lesser of the accrued sick leave benefits or ninety

days. The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash in accordance with the Act.

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

L. Long-Term Obligations

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

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

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

M. Equity Classifications

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

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

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

- *Nonspendable Fund Balance* – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form – such as inventory or prepaid amounts, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* – Committed fund balance includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes the constraints by taking the same type of formal action that imposed the restraints originally (e.g., resolution, ordinance).
- *Assigned Fund Balance* – Assigned fund balances are amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. Decisions with regard to these amounts do not

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

have to be made at the highest decision-making level. They may be made by a committee or other government official to which the City Council delegates the authority. The constraints imposed by an assignment are more easily imposed and removed.

- *Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund. This represents General Fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund. These are amounts not previously included in the other categories which are technically available for any purpose and represent resources that are available for additional appropriation. Positive amounts are reported only in the General Fund.

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

N. Estimates

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Policy

The City's Investment Policy specifies that depository services must be approved by City Council. The City Manager and City Secretary/Treasurer are designated as investment officers of the City and are responsible for investment decisions and activities. All deposits and investments of City funds shall be secured by pledged collateral. The collateralization level will be 102 per cent of market value of principal and accrued interest on the deposits or investments less an amount insured by FDIC. In accordance with its investment policy, the City manages its exposure to declines in fair market values by not investing more than 20% of the portfolio for a period greater than one year and no portion of a portfolio may be invested for a period greater than two years. As of September 30, 2011, all of the City's investments were invested for a period of eighteen months 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 extent of its funds on deposit and that none of the securities can be pledged or subjected to any lien other than that of the City. The City's deposits are categorized below to indicate the level of risk assumed by the City as of September 30, 2011:

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.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011, were secured by depository insurance or by collateral held by a third-party custodian in the City's name, and therefore were not exposed to custodial credit risk.

At year-end, the City's carrying amount of deposits was \$1,150,530 and the bank balance was \$1,181,469. Of this bank balance, \$250,000 is covered by federal depository insurance. The remaining balance \$931,469 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	\$ 1,150,530
Petty Cash	<u>400</u>
Total cash and cash equivalents	1,150,930
Less: restricted cash and cash equivalents	<u>(346,900)</u>
Unrestricted cash and cash equivalents	<u>\$ 804,030</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, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two Acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller of Public Accounts exercises oversight responsibility over *TexPool*. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in *TexPool* and other persons who do not have a business relationship with *TexPool*. The Advisory Board members review the investment policy and management fee structure. Finally, *TexPool* is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review. In addition to its annual review by an independent auditor, *TexPool* is subject to review by the State Auditor and the Internal Auditor of the Comptroller's Office. Results of these annual reviews may be obtained from *TexPool* Participant Services, c/o Federated Investors, Inc., 1001 Texas Avenue, Suite 1400, Houston, Texas 77002.

The City of Santa Fe had \$60,043 invested in *TexPool* as of September 30, 2011, at a 0.128% average annual rate of return, *TexPool's* administrative and investment services are provided by Federated Investors, Inc., and the assets are safe kept in a separate custodial account at State Street Bank and Trust in the name of *TexPool*. Its portfolio is made up of the following:

1. Obligations of the United States Government, its agencies and instrumentalities with a maximum final maturity of 397 days for fixed rate securities and 24 months for variable rate notes.
2. Fully collateralized repurchase agreements and reverse repurchase agreements (a) with a defined termination dates, (b) secured by obligations of the United States, its agencies, or its instrumentalities, including certain mortgage – backed securities, (c) that require purchased securities to be pledged to the investing entity, in the entity's name, and deposited at the time of investment with the investing entity or a third party, and (d) that are placed through primary government securities dealers, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas. The term of a reverse repurchase agreement may not exceed

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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

The City of Santa Fe had \$131,493 invested in LOGIC I as of September 30, 2011, at a 0.189% 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;

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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

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

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

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

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

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

Concentration of credit risk is the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specified issuer. The investment policy requires diversification by security type and institution, but does not place a fixed percentage limit for any other instrument. At September 30, 2011, the City had no concentration of credit risk.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance October 1	Increases	Decreases	Ending Balance September 30
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 574,548	\$ -	\$ -	\$ 574,548
Total capital assets not being depreciated	<u>574,548</u>	<u>-</u>	<u>-</u>	<u>574,548</u>
<i>Capital assets being depreciated:</i>				
Buildings	681,068	-	-	681,068
Building improvements	222,912	60,533	-	283,445
Computers	257,479	46,661	-	304,140
Equipment	1,117,009	15,057	-	1,132,066
Furniture and fixtures	12,464	2,142	-	14,606
Improvements (other than buildings)	92,099	-	-	92,099
Infrastructure	26,480,667	365,187	-	26,845,854
Infrastructure improvements	3,431,231	344,345	-	3,775,576
Radios	47,261	144,725	-	191,986
Vehicles	705,118	11,750	69,279	647,589
Total capital assets being depreciated	<u>33,047,308</u>	<u>990,400</u>	<u>69,279</u>	<u>33,968,429</u>
<i>Less accumulated depreciation for:</i>				
Buildings	309,228	17,079	-	326,307
Building improvements	181,247	11,788	-	193,035
Computers	187,463	39,260	-	226,723
Equipment	705,542	76,199	-	781,741
Furniture and fixtures	9,952	976	-	10,928
Improvements (other than buildings)	23,209	6,155	-	29,364
Infrastructure	11,982,894	443,292	-	12,426,186
Infrastructure improvements	695,151	239,339	-	934,490
Radios	29,710	5,881	-	35,591
Vehicles	304,364	57,839	51,105	311,098
Total accumulated depreciation	<u>14,428,760</u>	<u>897,808</u>	<u>51,105</u>	<u>15,275,463</u>
Total capital assets being depreciated, net	<u>18,618,548</u>	<u>92,592</u>	<u>18,174</u>	<u>18,692,966</u>
Governmental activities capital assets, net	<u>\$ 19,193,096</u>	<u>\$ 92,592</u>	<u>\$ 18,174</u>	<u>\$ 19,267,514</u>

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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

General government administration	\$	7,899
Community service		9,930
Police/Judicial		92,286
Library		11,837
Streets		756,666
Community center		5,642
Fire marshal		2,512
Parks		11,036
		<hr/>
Total depreciation expense - governmental activities	\$	<u>897,808</u>

NOTE 5 – LONG-TERM DEBT

The following is a summary of changes in long-term liabilities for the year ended September 30, 2011:

	<u>Beginning Balance October 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance September 30</u>	<u>Due Within One Year</u>
Governmental Activities					
Capital lease obligations	\$ 174,884	\$ 267,694	\$ 146,832	\$ 295,746	\$ 119,354
Compensated absences	516,430	346,149	310,745	551,834	-
Net pension obligation	<u>84,480</u>	<u>26,865</u>	<u>-</u>	<u>111,345</u>	<u>-</u>
Total Governmental Activities					
Long-term liabilities	<u>\$ 775,794</u>	<u>\$ 640,708</u>	<u>\$ 457,577</u>	<u>\$ 958,925</u>	<u>\$ 119,354</u>

Capital Lease Obligations:

- (1) 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. \$ 70,064
 - (2) Computer software for City's court system, four Panasonic laptop computers, three digital in-car video cameras, and a metal building for the Street department. Total purchase price of \$122,970, financed by Suntrust Equipment Finance and Leasing Corp., one annual payment of \$42,013, with no interest and two annual payments of \$42,013, including interest at 2.5159% through December 15, 2012. 80,957
 - (3) Twenty-two portable digital radios and fourteen mobile digital radios. Total purchase price of \$144,725, financed by Suntrust Equipment Finance and Leasing Corp., one annual payment of \$10,000, including interest at 2.40% and six annual payments of \$24,646, including interest at 2.40% through December 31, 2017. 144,725
- Total capital lease obligations \$ 295,746

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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

Vehicles	\$ 94,693	
Less: Accumulated depreciation	<u>16,768</u>	
Net vehicles		\$ 77,925
Equipment	118,762	
Less: Accumulated depreciation	<u>18,310</u>	
Net equipment		100,452
Computers	41,891	
Less: Accumulated depreciation	<u>4,878</u>	
Net computers		37,013
Radios	147,925	
Less: Accumulated depreciation	<u>2,920</u>	
Net radios		145,005
Buildings	60,533	
Less: Accumulated depreciation	<u>2,354</u>	
Net buildings		<u>58,179</u>
Capitalized leased assets, net		<u>\$ 418,574</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, 2011:

	<u>Governmental Activities</u> <u>Capital Leases</u>	
Year Ended September 30:		
2012	\$	124,536
2013		66,659
2014		24,646
2015		24,646
2016 and future		<u>73,939</u>
Total principal and interest		314,426
Less: Amount representing interest		<u>18,680</u>
Total future principal payments	<u>\$</u>	<u>295,746</u>

Net Pension Obligation:

The City has not been able to contribute the full retirement rate for the fiscal year end 2009, 2010, and 2011. This created an actual contribution that was less than the actuarially determined annual required contribution (ARC), and therefore, a net pension obligation of \$111,345 has been created. The City of Santa Fe has been allowed to phase-in the higher contribution rate over an eight year period beginning January 1, 2010. The net pension obligation in future years financial statements will be adjusted to reflect the difference between actual contributions paid and annual required contributions for that year.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

In both the government-wide and governmental fund financial statements, no amounts were reported as “interfund receivables and payables,” “advances from or to other funds,” or “due to and from other funds” as of September 30, 2011.

Interfund transfers during the year ended September 30, 2011, were as follows:

Major Governmental Funds	In	Out
General Fund		
Transfer to Special Revenue Fund	\$ -	\$ 1,500
Transfer from Special Revenue Fund	1,585	-
Special Revenue Fund		
Transfer from General Fund	1,500	-
Transfer to General Fund	-	1,585
Total	\$ 3,085	\$ 3,085

The General Fund made transfers to the Special Revenue Fund to help finance federal grant programs. Upon receipt of federal funds, the Special Revenue Fund transferred the funds back to the General Fund.

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 2,702 Texas municipalities and other governmental units as of September 30, 2011. 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, 2011, the City paid out of its General Fund net premiums of approximately \$59,148 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, 2011, the City contributed out of its General Fund net premiums of approximately \$41,918 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, 2011, 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, 2011.

Litigation

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

NOTE 9 – PENSION PLAN – TEXAS MUNICIPAL RETIREMENT SYSTEM

Plan Description

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

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

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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:

	<u>Plan Year</u> <u>2010</u>	<u>Plan Year</u> <u>2011</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

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)	\$ 331,046 ⁽¹⁾
Interest on Net Pension Obligation	6,336 ⁽²⁾
Adjustment to the ARC	<u>(5,252)</u>
Annual Pension Cost (APC)	332,130
Contributions Made	<u>305,265</u>
Increase (decrease) in net pension obligation	26,865
Net Pension Obligation/(Asset), beginning of year	<u>84,480</u>
Net Pension Obligation/(Asset), end of year	<u>\$ 111,345</u>

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

(2) The interest on the net pension obligation is calculated by multiplying the prior year net pension obligation by 7.50%.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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>
2009	\$ 290,978	\$ 255,116	88%	\$ 35,862
2010	344,545	295,927	86%	48,618
2011	332,130	305,265	92%	26,865

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation date	12/31/2008	12/31/2009	12/31/2010-Prior to Restructuring	12/31/2010- Restructured
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 equivalent single amortization period	29 years; closed period	28 years; closed period	27 years; closed period	27 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	Amortized cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial assumptions:				
Investment rate of return*	7.5%	7.5%	7.5%	7.0%
Projected salary increases*	Varies by age & service	Varies by age & service	Varies by age & service	Varies by age & service
*Includes inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-living adjustments	2.1%	2.1%	2.1%	2.1%

Funded Status and Funding Progress – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (1)</u>	<u>Actuarial Accrued Liability (AAL) (2)</u>	<u>Funded Ratio (3)</u>	<u>Unfunded AAL (UAAL) (4)</u>	<u>Covered Payroll (5)</u>	<u>UAAL as a Percentage of Covered Payroll (6)</u>
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2010 ^(A)	\$ 4,259,549	\$ 6,940,532	61.4%	\$ 2,680,983	\$ 2,748,793	97.5%
12/31/2010 ^(B)	4,737,129	7,467,110	63.4%	2,729,981	2,748,793	99.3%

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

(B) Actuarial valuation performed under the new fund structure

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

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

NOTE 10 – 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.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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

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

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

A-1. Reporting Entity

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

A-2. Basic Financial Statements

General

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

Government-Wide Statements:

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

The government-wide Statement of Activities also reports on all the non-fiduciary activities of the government. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. The Corporation does not allocate indirect costs. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment (2) grants and contributions that are restricted to meeting the operational or capital

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements:

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

A-3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

A-4. Cash and Cash Equivalents

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

A-5. Investments

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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States of America or their respective agencies and instrumentalities. The Corporation has also adopted a resolution and a participation agreement that authorizes participation in investment pools.

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

A-6. Receivables

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

A-7. Capital Assets

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

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

<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.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

A-9. Long-Term Obligations

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. No long-term debt exists as of September 30, 2011.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. No new debt or other financing sources or principal or interest payments were made during the 2010-11 fiscal year. No long-term debt exists as of September 30, 2011.

A-10. Equity Classifications

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

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

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

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

categories which are technically available for any purpose and represent resources that are available for additional appropriation. Positive amounts are reported only in the General Fund.

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

A-11. Estimates

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

B. – DEPOSITS AND INVESTMENTS

Policy

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

Deposits

The Corporation's deposits were with the contracted depository bank in interest bearing accounts. The deposits are not commingled with the City of Santa Fe funds. All amounts are subject to various State statutes that exist to secure the safety of public funds. A pledge agreement exists that requires the Corporation to have a first and prior lien on the securities to the extent of its funds on deposit and that none of the securities can be pledged or subjected to any lien other than that of the Corporation. The Corporation's deposits are categorized below to indicate the level of risk assumed by the Corporation as of September 30, 2011:

- 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, 2011, 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 \$674,989 (all considered cash and cash equivalents) and the bank balance was \$708,214. The total bank balance is covered by Federal Depository Insurance (Risk Category 1) and

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

collateralized by securities held by the pledging financial institution or by its trust department or agent in the name of the Corporation (Risk Category 1). The Corporation does not have any petty cash at the year end.

Investments

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

The Economic Development Corporation had \$223,403 invested in TexPool as of September 30, 2011, at a .13% average annual rate of return. TexPool's administrative and investment services are provided by Federated Investors, Inc., and the assets are safekept in a separate custodial account at State Street Bank and Trust in the name of TexPool. Its portfolio is made up of the following:

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

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

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

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011, the Corporation had no concentration of credit risk.

C. – RECEIVABLES

Receivables at September 30, 2011, consist of the following:

County of Galveston - this represents 90% reimbursement due from county government for Economic Development Corporation advanced funds to acquire right-of-ways related to FM 646 from FM 1764 to SH 6 project. No allowance for uncollectible has been set up for this amount even though it will not be collected within one year. It may be several years before the project is complete and reimbursement funds are available to the County of Galveston for ultimate return to the Economic Development Corporation (See Note H for details)	\$ 334,287
Texas Comptroller of Public Accounts - an amount due from the state government for the Economic Development Corporation's share of local sales tax collected in the City of Santa Fe for the months of August and September, 2011, but not remitted until October and November, 2011. No allowance for uncollectible has been set up since this amount has been received in the subsequent year.	<u>83,028</u>
Total receivables	<u>\$ 417,315</u>

CITY OF SANTA FE, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 SEPTEMBER 30, 2011

D. – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 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	<u>24,411</u>	<u>322,805</u>	<u>-</u>	<u>347,216</u>
Total capital assets not being depreciated	<u>48,211</u>	<u>322,805</u>	<u>-</u>	<u>371,016</u>
<i>Capital assets being depreciated:</i>				
Less accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 48,211</u>	<u>\$ 322,805</u>	<u>\$ -</u>	<u>\$ 371,016</u>

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

Capital asset balance of \$371,016 was related to the following commitments (See Note H):

Jackson Street and Highway 6 Waterline Loop Project	\$ 187,043
Waterline Project on FM 1764 Between Avenue Q and FM 646 North	178,873
Waterline Project on FM 1764 Between 3rd Street and Avenue S	<u>5,100</u>
Total	<u>\$ 371,016</u>

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

E. – LONG-TERM DEBT

The Corporation paid off all their long-term debt as of September 30, 2010. No new debt has been incurred in the 2010-11 fiscal year, therefore the Corporation has no long-term debt as of September 30, 2011.

F. – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011, no amounts were reported as interfund receivables, payables, or transfers in the government-wide or governmental fund financial statements.

G. – RISK MANAGEMENT

During the normal course of business, the Corporation is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors or omissions; and natural disasters. The Corporation has been included as a "covered party" of the City of Santa Fe's insurance coverage and is entitled to all the declarations of coverage available to the City. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk Pool. This pool is a risk-sharing pool providing insurance coverage to 2,702 Texas municipalities and other governmental units as of September 30, 2011. 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, 2011, the City paid net premiums of approximately \$59,148 for provisions of various liability, property, and casualty insurance. The City has coverage deductibles ranging from \$1,000 to \$10,000 on various policies. TML will pay damages and claims subject to the limits of liability and stated deductible amounts in accordance with the approved declarations of coverage. Amounts over the stated limits of liability become the responsibility and risk of the City of Santa Fe or the Economic Development Corporation. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At year-end, neither the City nor the Corporation had any significant probable claims.

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

H. – COMMITMENTS & CONTINGENT LIABILITIES

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

The Economic Development Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on August 19, 2008. 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 and \$27,581 during the 2010-11 year. The remaining amount of \$958,457 will be contributed in future years. This amount has not been recorded in the 2010-11 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, 2011. 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.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011, the amount authorized for the project is \$191,489 with actual expenditures incurred of \$187,043. This project is complete as of September 30, 2011, and will be transferred to WCID No. 8 per interlocal agreement in the 2011-12 year.

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, 2011. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on December 12, 2011. 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, 2011, the amount authorized for the project is \$185,996 with actual expenditures incurred of \$178,873. This project is complete as of September 30, 2011, and will be transferred to WCID No. 8 per interlocal agreement in 2011-12 year.

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, 2011. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement No. 8 (WCID No. 8) on December 14, 2011. 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, 2011, the amount authorized for the project is \$137,135 with actual expenditures incurred of \$5,100. The remaining authorized project costs of \$132,035 has not been recorded in the 2010-11 year financial statements but will be incurred and reported in future years as the project continues.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2011

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, 2011, 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 2010-11 year financial statements but will be incurred and reported in future years as the project continues.

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

The Board of Directors of the Economic Development Corporation approved an interlocal agreement between the County of Galveston, the City of Santa Fe, and the Economic Development Corporation on June 7, 2011. The agreement terms specify that the Economic Development Corporation will advance \$1,300,000 of funds to the City of Santa Fe to forward to the County of Galveston for the County to acquire right-of-ways, within the City limits of the City of Santa Fe, related to the FM 646 from FM 1764 to SH 6 project. The funds will be advanced in seven equal installments of \$185,715 per installment starting June 30, 2011 through December 31, 2012. The County of Galveston has also entered into a contract with the Texas Department of Transportation (TxDot) in which TxDot will reimburse 90% to the County of eligible right-of-way acquisitions. At such time that the County has received the maximum amount of reimbursement it is entitled to receive from TxDot, it will reimburse the City of Santa Fe for forwarding to the Economic Development Corporation approximately 90% of the advanced funds or \$1,170,000. TxDot does not currently have any funds available to reimburse the County for this project and they make no assurances to the County of Galveston, the City of Santa Fe, or the Economic Development Corporation as to when such funds will become available. It could be several years before reimbursement funds from TxDot become available for ultimate return to the Economic Development Corporation. The September 30, 2011 financial statements have recorded \$371,430 of advanced funds as an expenditure, and \$334,287 (90% of \$371,430) as accounts receivable and revenue from the County of Galveston. The remaining amounts will be recorded in future years as the project continues.

Litigation

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

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SANTA FE, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes:				
Property	\$ 1,636,865	\$ 1,636,865	\$ 1,654,998	\$ 18,133
Franchise and contract fees	709,500	709,500	708,713	(787)
Sales tax	900,000	900,000	884,868	(15,132)
Sales tax - property tax reduction	450,000	450,000	442,434	(7,566)
Licenses and permits	151,800	142,920	166,843	23,923
Municipal finds and cash bond forfeits	250,000	253,017	212,251	(40,766)
Intergovernmental revenues	60,900	237,270	601,576	364,306
Interest income	6,000	6,000	7,847	1,847
Penalty and interest, property taxes	25,000	25,000	32,249	7,249
Other revenues	18,500	22,967	31,643	8,676
Total revenues	4,208,565	4,383,539	4,743,422	359,883
Expenditures				
Current:				
General government administration	519,558	520,695	512,125	8,570
Tax	17,154	17,154	14,233	2,921
Community services	276,434	276,434	271,843	4,591
Judicial/Police	2,291,706	2,290,319	2,199,076	91,243
Fire Marshal	15,393	15,393	11,853	3,540
Public Safety	61,709	61,709	53,108	8,601
Library	188,645	195,617	190,937	4,680
Streets	616,575	626,228	600,512	25,716
Parks	98,746	110,048	96,131	13,917
Community center	17,865	17,865	18,252	(387)
Capital expenditures	216,413	491,103	990,400	(499,297)
Debt service:				
Principal retirement	141,823	146,832	146,832	-
Interest	12,486	8,691	6,515	2,176
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program -				
Administrative	-	-	-	-
Project construction costs	-	-	-	-
Texas General Land Office (GLO) Community Development Block Grant - Disaster Recovery Grant Program; Contract #GLO10-5184-000-5167 - Round 1				
Water facilities	-	-	-	-
Sewer facilities	-	-	-	-
Engineering	-	-	-	-
Planning/Project delivery	-	-	-	-

(Continued)

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, 2011

EXHIBIT 1

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Texas Comptroller of Public Accounts (CPA); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362 Administration/Consultant Subcontractor	\$ -	\$ -	\$ -	\$ -
	-	-	-	-
Total expenditures	<u>4,474,507</u>	<u>4,778,088</u>	<u>5,111,817</u>	<u>(333,729)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(265,942)</u>	<u>(394,549)</u>	<u>(368,395)</u>	<u>26,154</u>
Other Financing Sources (Uses):				
Transfer in	-	-	1,585	1,585
Transfer out	-	-	(1,500)	(1,500)
Proceeds from sale of capital assets	-	5,637	5,637	-
Capital lease contracts	-	122,970	267,695	144,725
Issuance of debt - line of credit proceeds	-	-	-	-
Appropriated fund balance	<u>265,942</u>	<u>265,942</u>	<u>-</u>	<u>(265,942)</u>
Total other financing sources (uses)	<u>265,942</u>	<u>394,549</u>	<u>273,417</u>	<u>(121,132)</u>
Net change in fund balances	-	-	(94,978)	(94,978)
Fund balances at beginning of year	<u>1,617,043</u>	<u>1,617,043</u>	<u>1,617,043</u>	<u>-</u>
Fund balances at end of year	<u>\$ 1,617,043</u>	<u>\$ 1,617,043</u>	<u>\$ 1,522,065</u>	<u>\$ (94,978)</u>

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, 2011

	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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures				
Current:				
Administrative costs	-	-	-	-
Project construction costs	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfer in	-	-	-	-
Transfer out	-	-	(85)	(85)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(85)</u>	<u>(85)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(85)</u>	<u>(85)</u>
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>85</u>	<u>85</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SANTA FE, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK
 GRANT - DISASTER RECOVERY GRANT PROGRAM,
 CONTRACT #GLO10-5184-000-5167 - ROUND 1
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT 3

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenues:				
Texas General Land				
Office Grant	\$ -	\$ 1,963,263	\$ 1,359,596	\$ (603,667)
 Total revenues	 -	 1,963,263	 1,359,596	 (603,667)
Expenditures				
Current:				
Water facilities	-	1,374,587	906,636	467,951
Sewer facilities	-	275,681	219,863	55,818
Engineering	-	215,057	157,309	57,748
Planning/Project delivery	-	97,938	75,788	22,150
 Total expenditures	 -	 1,963,263	 1,359,596	 603,667
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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SANTA FE, TEXAS

EXHIBIT 4

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues:				
Texas Comptroller of Public Accounts Grant	\$ -	\$ 57,576	\$ 1,500	\$ (56,076)
Total revenues	<u>-</u>	<u>57,576</u>	<u>1,500</u>	<u>(56,076)</u>
Expenditures				
Current:				
Administration/Consultant	-	1,500	1,500	-
Subcontractor	-	56,076	-	56,076
Total expenditures	<u>-</u>	<u>57,576</u>	<u>1,500</u>	<u>56,076</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfer in	-	-	1,500	1,500
Transfer out	-	-	(1,500)	(1,500)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to required supplementary information.

BUDGETARY INFORMATION

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

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

Expenditures, on the departmental level, should not exceed appropriations. However, the City Manager may transfer any unencumbered appropriation balance or any portion thereof among programs within a department. By ordinance, the City Council may transfer all or part of any unencumbered appropriation balance from one department to another. Every appropriation, except an appropriation for a capital expenditure, shall lapse at the close of the fiscal year to the extent that it has not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned; the purpose of any such appropriation shall be deemed abandoned if three years pass without any disbursement from or encumbrance of the appropriation. Additionally, by ordinance, the City Council may amend the budget to make supplemental appropriations to (1) carry excess current revenues to a subsequent year, (2) 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 9, 2010. Passed, approved, and adopted by City Council was Ordinance Number 08-2011 which contained 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, 2011, expenditures exceeded appropriations in the following:

General Fund:		
Capital expenditures	\$	499,297

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, 2011

EXHIBIT 5

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (1)</u>	<u>Actuarial Accrued Liability (AAL) (2)</u>	<u>Funded Ratio (3)</u>	<u>Unfunded AAL (UAAL) (4)</u>	<u>Covered Payroll (5)</u>	<u>UAAL as a Percentage of Covered Payroll (6)</u>
			(1) / (2)	(2) - (1)		(4) / (5)
12/03/05	\$ 2,057,691	\$ 3,546,038	58.0%	\$1,488,347	\$1,984,448	75.0%
12/31/06	2,436,608	3,979,314	61.2%	1,542,706	1,997,159	77.2%
12/31/07	2,799,348	5,203,197	53.8%	2,403,849	2,124,360	113.2%
12/31/08	3,286,283	5,901,845	55.7%	2,615,562	2,503,388	104.5%
12/31/09	3,751,559	6,338,232	59.2%	2,586,673	2,602,700	99.4%
12/31/10 (A)	4,259,549	6,940,532	61.4%	2,680,983	2,748,793	97.5%
12/31/10 (B)	4,737,129	7,467,110	63.4%	2,729,981	2,748,793	99.3%

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

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

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OTHER SUPPLEMENTARY INFORMATION

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CITY OF SANTA FE, TEXAS
SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SCHEDULE 1

General Fund:
Certificates of Deposit:

<u>Certificate Numbers</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>September 30, 2011</u>	
			<u>Balance</u>	
40419673	0.35%	02/12/12	\$	122,528
40419674	0.35%	02/12/12		122,528
40419675	0.35%	02/12/12		230,340
41002843	1.30%	07/05/12		100,646
41002844	1.30%	07/05/12		100,646
41002845	1.30%	07/05/12		100,646
41002850	1.30%	07/05/12		100,646
Total temporary investments			\$	<u>877,980</u>

CITY OF SANTA FE, TEXAS
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

SCHEDULE 2

Taxes receivable - October 1		\$	158,416
2010 original tax assessment	\$	1,650,040	
Add (Deduct): Abatements and adjustments to tax rolls during the year		<u>5,519</u>	<u>1,655,559</u>
Total to be accounted for			1,813,975
Less collections:			
Current year		1,609,967	
Prior years		<u>40,929</u>	
Total collections			<u>1,650,896</u>
Taxes receivable - September 30			163,079
Less allowance for uncollectible taxes			<u>(25,376)</u>
Net taxes receivable - September 30		\$	<u>137,703</u>

Taxes receivable by years:

2010	\$	49,781	
2009		22,456	
2008		15,884	
2007		11,642	
2006		9,805	
2005		6,604	
2004		6,401	
2003		5,203	
2002		4,553	
2001		3,999	
2000 and prior years		<u>26,751</u>	\$ 163,079
Less allowance for uncollectible taxes			<u>(25,376)</u>
Net taxes receivable - September 30			\$ <u>137,703</u>

Assessed valuation	\$ 570,338,763
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	97.57%
Percent of the current and delinquent taxes collected to current and delinquent taxes outstanding at the beginning of the year	91.01%

CITY OF SANTA FE, TEXAS

SCHEDULE 3

CITY COUNCIL, KEY ADMINISTRATIVE PERSONNEL AND LEGAL COUNSEL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<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
Jim Abney 4827 Avenue H Santa Fe, Tx 77510 5/09 to 5/12	\$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
Joe Carothers 4410 Castle Drive Santa Fe, Tx 77510 05/10 to 05/13	\$0	Council Member	Yes	None
Joe Dickson 3807 Wade Santa Fe, Tx 77510	\$100,142	City Manager	Yes	None
Janet Davis 12835 24th St. Santa Fe, Tx 77510	\$60,242	City Secretary/Treasurer	Yes	None
Ellis J. Ortego 606 Bayou Crest Dr. Dickinson, Tx 77536	\$24,000	Prosecutor and City Attorney	No	None

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	September 30, 2011		Variance - Over (Under) Budget	September 30, 2010	
	Final Budget	Actual		Budget	Actual
PRIMARY GOVERNMENT:					
GENERAL FUND					
Administration					
Capital expenditures					
Furniture and office equipment	\$ 3,000	\$ 1,326	\$ (1,674)	\$ 7,090	
Instruments	1,118	1,077	(41)	1,118	
Buildings and structures	-	-	-	-	
Motor vehicle	-	-	-	-	
Machinery, tools and equipment	-	-	-	-	
Land	-	-	-	324,500	
Capital outlay, capital lease	-	-	-	3,200	
Insurance	68,500	68,625	125	66,538	
Maintenance and repairs	6,100	4,288	(1,812)	8,240	
Personnel services	343,912	342,273	(1,639)	340,175	
Special services	85,350	80,857	(4,493)	103,960	
Supplies and materials	8,433	7,883	(550)	8,098	
Utilities	8,400	8,199	(201)	8,307	
Compensated absences	-	-	-	-	
Contingency fund	-	-	-	-	
Total	<u>524,813</u>	<u>514,528</u>	<u>(10,285)</u>	<u>871,226</u>	
Tax					
Capital expenditures					
Furniture and office equipment	-	-	-	-	
Maintenance and repairs	-	-	-	-	
Personnel services	-	-	-	-	
Special services	17,154	14,233	(2,921)	13,380	
Supplies and materials	-	-	-	-	
Utilities	-	-	-	-	
Total	<u>17,154</u>	<u>14,233</u>	<u>(2,921)</u>	<u>13,380</u>	
Community Services					
Capital expenditures					
Furniture and office equipment	-	-	-	1,955	
Instruments	-	-	-	-	
Buildings and structures	-	-	-	-	
Capital outlay, capital lease	-	-	-	-	
Maintenance and repairs	4,800	4,330	(470)	3,879	
Personnel services	219,983	223,447	3,464	220,205	
Special services	36,150	29,736	(6,414)	14,198	
Supplies and materials	7,501	6,731	(770)	5,875	
Utilities	8,000	7,599	(401)	7,740	
Compensated absences	-	-	-	-	
Total	<u>276,434</u>	<u>271,843</u>	<u>(4,591)</u>	<u>253,852</u>	

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	September 30, 2011		Variance -	September 30, 2010
	Final Budget	Actual	Over (Under)	Actual
			Budget	
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Judicial				
Capital expenditures				
Furniture and office equipment	\$ 12,900	\$ 11,187	\$ (1,713)	\$ 2,300
Machinery, tools, and equipment			-	-
Capital outlay, capital lease	32,745	28,103	(4,642)	-
Motor vehicles	8,079	8,079	-	8,079
Maintenance and repairs	5,227	4,190	(1,037)	2,345
Personnel services	197,003	196,608	(395)	188,929
Special services	46,605	42,763	(3,842)	42,058
Supplies and materials	12,150	13,399	1,249	11,075
Utilities	3,000	2,631	(369)	2,908
Compensated absences	-	-	-	-
Total	<u>317,709</u>	<u>306,960</u>	<u>(10,749)</u>	<u>257,694</u>
Police				
Capital expenditures				
Furniture and office equipment	10,000	8,456	(1,544)	19,925
Instruments	10,758	10,758	-	11,690
Machinery, tools and equipment	-	-	-	-
Motor vehicle - patrol cars	54,268	54,191	(77)	109,640
Seized/Awarded vehicle	-	-	-	10,915
Vehicle - private citizen donation	-	-	-	-
Capital lease equipment	-	-	-	-
Capital outlay, capital lease	29,725	173,570	143,845	94,668
Maintenance and repairs	59,232	41,433	(17,799)	47,591
Personnel services	1,782,078	1,750,441	(31,637)	1,741,191
Special services	30,032	21,175	(8,857)	21,049
Supplies and materials	127,267	103,185	(24,082)	103,841
Utilities	27,725	23,251	(4,474)	25,778
Compensated absences	-	-	-	-
Total	<u>2,131,085</u>	<u>2,186,460</u>	<u>55,375</u>	<u>2,186,288</u>
Fire Marshal				
Capital expenditures				
Furniture and office equipment	-	-	-	-
Instruments	-	-	-	-
Buildings and structures	-	-	-	-
Maintenance and repairs	2,200	1,134	(1,066)	2,182
Personnel services	8,043	7,449	(594)	7,295
Special services	500	292	(208)	396
Supplies and materials	3,950	2,384	(1,566)	1,879
Utilities	700	594	(106)	587
Total	<u>15,393</u>	<u>11,853</u>	<u>(3,540)</u>	<u>12,339</u>

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	September 30, 2011		Variance -	September 30, 2010
	Final Budget	Actual	Over (Under) Budget	Actual
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Public Safety				
Special services	\$ 58,909	\$ 53,108	\$ (5,801)	\$ 52,892
Utilities	1,000	-	(1,000)	105
Personnel services	1,000	-	(1,000)	602
Supplies and materials	800	-	(800)	-
Total	61,709	53,108	(8,601)	53,599
Library				
Capital expenditures				
Furniture and office equipment	2,500	2,142	(358)	-
Instruments	-	-	-	-
Buildings and structures	-	-	-	-
Machinery, tools and equipment	8,444	8,138	(306)	8,444
Capital outlay, capital lease	-	-	-	24,177
Maintenance and repairs	4,600	3,301	(1,299)	3,715
Personnel services	145,595	144,609	(986)	139,406
Special services	13,127	12,815	(312)	12,907
Supplies and materials	18,095	18,129	34	22,654
Utilities	14,200	12,083	(2,117)	12,052
Compensated absences	-	-	-	-
Total	206,561	201,217	(5,344)	223,355
Streets				
Capital expenditures				
Furniture and office equipment	-	-	-	-
Buildings and structures	20,670	20,670	-	-
Roller	-	-	-	-
Machinery, tools and equipment	-	-	-	-
Motor vehicles - other	-	-	-	-
Motor vehicles - gradall	-	-	-	50,146
Motor vehicles - dump trucks	19,331	19,213	(118)	41,661
Motor vehicles - slope mower	21,931	21,931	-	64,768
Motor vehicles - side mower	-	-	-	198,767
Motor vehicles - wheel loader	-	-	-	-
Motor vehicles - motorgrader	-	-	-	-
Street improvements	175,000	173,528	(1,472)	-
Streets infrastructure - contributions	170,817	536,004	365,187	317,271
Drainage infrastructure - contributions	-	-	-	-
Capital outlay, capital lease	60,500	60,533	33	120,589
Maintenance and repairs	78,853	77,438	(1,415)	74,534
Personnel services	434,025	418,213	(15,812)	416,030
Special services	5,200	4,254	(946)	2,754
Supplies and materials	68,650	62,682	(5,968)	48,652
Utilities	39,500	37,924	(1,576)	34,885
Compensated absences	-	-	-	-
Total	1,094,477	1,432,390	337,913	1,370,057

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	September 30, 2011		Variance -	September 30, 2010
	Final Budget	Actual	Over (Under) Budget	Actual
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Parks				
Capital expenditures				
Buildings and structures	\$ -	\$ -	\$ -	\$ 19,785
Motor vehicles	-	-	-	-
Tractors/mowers	4,840	4,840	-	5,022
Capital outlay, capital lease	-	-	-	14,379
Maintenance and repairs	5,800	5,442	(358)	7,104
Personnel services	64,127	55,484	(8,643)	48,443
Special services	935	691	(244)	355
Supplies and materials	36,836	33,413	(3,423)	19,114
Utilities	2,350	1,102	(1,248)	1,620
Compensated absences	-	-	-	-
Total	<u>114,888</u>	<u>100,972</u>	<u>(13,916)</u>	<u>115,822</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	3,970	3,838	(132)	3,164
Personnel services	3,245	3,120	(125)	3,120
Special services	110	303	193	535
Supplies and materials	1,400	1,401	1	1,755
Utilities	9,140	9,591	451	9,016
Total	<u>17,865</u>	<u>18,253</u>	<u>388</u>	<u>17,590</u>
HOME Investment Partnerships Program				
Project construction costs	-	-	-	-
Administrative	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Texas Community Development Block Grant Supplemental Fund Program				
Water facilities	-	-	-	28,054
Rehabilitation of private properties	-	-	-	-
Engineering/Architectural	-	-	-	10,441
General administration	-	-	-	3,000
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,495</u>

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	September 30, 2011		Variance - Over (Under) Budget	September 30, 2010	
	Final Budget	Actual		Actual	Actual
PRIMARY GOVERNMENT:					
GENERAL FUND (Continued)					
Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #GLO10-5184-000-5167 - Round 1					
Water facilities	\$ -	\$ -	\$ -	\$ -	-
Sewer facilities	-	-	-	-	-
Engineering	-	-	-	-	-
Planning/Project delivery	-	-	-	-	-
Total	-	-	-	-	-
Texas Comptroller of Public Accounts (CPA); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362					
Administration/Consultant	-	-	-	-	-
Subcontractor	-	-	-	-	-
Total	-	-	-	-	-
TOTAL - GENERAL FUND	4,778,088	5,111,817	333,729	5,416,697	
SPECIAL REVENUE FUND					
HOME Investment Partnerships Program					
Administrative costs	-	-	-	-	-
Project construction costs	-	-	-	-	-
Total	-	-	-	-	-
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program					
Water facilities	-	-	-	131,189	
Rehabilitation of private properties	-	-	-	10,289	
Engineering / Architectural	-	-	-	6,700	
General administration	-	-	-	5,325	
Total	-	-	-	153,503	

(Continued)

CITY OF SANTA FE, TEXAS

SCHEDULE 4

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2010

	September 30, 2011		Variance -	September 30, 2010
	Final Budget	Actual	Over (Under) Budget	Actual
PRIMARY GOVERNMENT:				
SPECIAL REVENUE FUND (Continued)				
Texas Community Development Block Grant - Disaster Recovery Grant Program; Contract #GLO10-5184-000-5167 - Round 1				
Water facilities	\$ 1,374,587	\$ 906,636	\$ (467,951)	\$ 507
Sewer facilities	275,681	219,863	(55,818)	-
Engineering	215,057	157,309	(57,748)	122,116
Planning/Project delivery	97,938	75,788	(22,150)	71,458
Total	<u>1,963,263</u>	<u>1,359,596</u>	<u>(603,667)</u>	<u>194,081</u>
Texas Comptroller of Public Accounts (CPA); Energy Efficiency & Conservation Block Grant (EECBG) Program; American Recovery & Reinvestment Act (ARRA); Contract #CS0362				
Administration/Consultant	1,500	1,500	-	-
Subcontractor	56,076	-	(56,076)	-
Total	<u>57,576</u>	<u>1,500</u>	<u>(56,076)</u>	<u>-</u>
TOTAL - SPECIAL REVENUE FUND	<u>2,020,839</u>	<u>1,361,096</u>	<u>(659,743)</u>	<u>347,584</u>
Total Expenditures - Primary Government All Funds and Departments	<u>6,798,927</u>	<u>6,472,913</u>	<u>(326,014)</u>	<u>5,764,281</u>
COMPONENT UNIT:				
GENERAL FUND				
Administration				
Capital expenditures				
Infrastructure improvements	367,149	322,805	(44,344)	698,086
Personnel services	16,000	15,350	(650)	15,020
Special services	410,411	408,266	(2,145)	22,873
Supplies and materials	700	423	(277)	432
Total	<u>794,260</u>	<u>746,844</u>	<u>(47,416)</u>	<u>736,411</u>
Total Expenditures - Component Unit All Funds and Departments	<u>794,260</u>	<u>746,844</u>	<u>(47,416)</u>	<u>736,411</u>
Total Expenditures - Reporting Entity All Funds and Departments	<u>\$ 7,593,187</u>	<u>\$ 7,219,757</u>	<u>\$ (373,430)</u>	<u>\$ 6,500,692</u>

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FEDERAL AWARDS SECTION

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

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 11, 2012. 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.

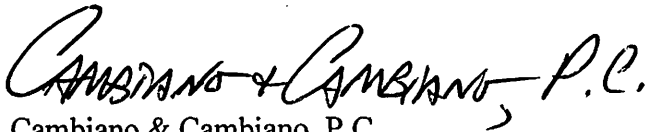
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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

June 11, 2012



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

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

Compliance

We have audited the City of Santa Fe's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control over Compliance


Management of the City of Santa Fe is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to

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

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

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

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


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

June 11, 2012

CITY OF SANTA FE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Texas General Land Office (GLO); Community Development Block Grant - Disaster Recovery Program (Hurricane Ike), Round 1	14.228	Contract #GLO10-5184-000-5167 (Formerly TDRA Contract #DRS010168)	\$ 1,359,596
"ARRA" - UNITED STATES DEPARTMENT OF ENERGY			
Passed Through Texas Comptroller of Public Accounts (CPA); Energy Efficiency and Conservation Block Grant (EECBG) Program	81.128	Federal grant award #DE-EE0000893; State Contract #CS0362	<u>1,500</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,361,096</u>

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the City of Santa Fe, Texas under programs of the federal government for the year ended September 30, 2011. The information in this schedule is presented in accordance with the requirements of OMB Circular 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of the City of Santa Fe, it is not intended to and does not present the financial position or changes in net assets of the City. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF SANTA FE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	United States Department of Housing and Urban Development; Community Development Block Grant, Disaster Recovery Program (Hurricane Ike); Round 1
81.128	"ARRA" - United States Department of Energy; Energy Efficiency and Conservation Block Grant (EECBG) Program

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

II. BASIC FINANCIAL STATEMENT FINDINGS

None Reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

IV. STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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

CITY OF SANTA FE, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Corrective Action Plan

Not Applicable