

City of Santa Fe, Texas

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS

For the Year Ended September 30, 2016



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INGRAM

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City of Santa Fe, Texas
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September 30, 2016

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INTRODUCTORY SECTION

MAYOR

Jeff Tambrella

CITY COUNCIL

Mayor Pro –Tem	Ronald “Bubba” Jannett
Council Member	Joe Carothers
Council Member	Charles Coleman
Council Member	Corey Jannett
Council Member	Bill Pittman

CITY MANAGER

Joe Dickson

CITY SECRETARY/TREASURER

Janet Davis



FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Santa Fe, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The City of Santa Fe Section 4B Economic Development Corporation, a discretely presented component unit of the City, which represents 11.1 percent, 15.7 percent and 7.9 percent, respectively, of the assets, net position and revenues of the City of Santa Fe, Texas as of and for the year ended September 30, 2016. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The City of Santa Fe Section 4B Economic Development Corporation, is based solely on the report of the other auditors. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of

the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit and each major fund of the City as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 7 to 13, the budgetary comparison information on pages 48 to 49, the schedule of changes in net pension liability and the schedule of employer contributions on pages 50 to 52 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 State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The introductory and other supplementary sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and other supplementary sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued a report dated July 10, 2017 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the 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* in considering the City's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

July 10, 2017

Management's Discussion and Analysis

The City of Santa Fe, Texas's (the "City") management discussion and analysis presents an overview of the City's financial activities for the fiscal year ended September 30, 2016. It is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns. Please read it in conjunction with the City's financial statements beginning on page 14.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$14,802,409 (net position).
- The City's total net position decreased by \$688,584 during the year.
- The City's total expenses were \$7,210,122. Program revenues of \$1,923,833 decreased the net cost of the City's functions to be financed from the City's general revenues to \$5,286,289.
- At the end of the fiscal year, unrestricted fund balance was a deficit \$1,393,405 or 19.2 percent of total expenditures.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

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

The statement of net position presents information on all of the City's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The government-wide financial statements include not only the City itself (known as the primary government), but also component unit: Santa Fe Economic Development Corporation. Financial information for the component unit is reported separately from the financial information presented for the primary government. Complete financial statements for the component unit are available from the Santa Fe Economic Development Corporation upon request.

The government-wide financial statements can be found beginning on page 14 of this report.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. The fund financial statements provide information about the City's most significant funds.

The City only maintains governmental funds.

Governmental Funds

Some of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash are received and expended and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's major programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship/differences between them.

The City maintains three individual governmental funds, the General Fund, Debt Service Fund and Special Revenue Fund for financial reporting purposes. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for these funds, which are considered to be major funds as of September 30, 2016.

The basic governmental funds financial statements can be found beginning on page 16 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 46 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget and the City's pension benefits provided to its employees. Required supplementary information can be found on pages 48 through 52 of this report.

Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$14,802,409 as of September 30, 2016.

The largest portion of the City's net position, \$16,177,384, reflects its net investment in capital assets (e.g. land, buildings, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

Additionally, a portion of the City's net position, \$18,430, represents restricted financial resources which are not available for future spending.

Lastly, the remaining portion of the City's net position represents unrestricted financial resources available for future operations. As of September 30, 2016, unrestricted net position has a deficit balance of \$1,393,405, which can be attributed to City's net pension liability that was initially recorded in fiscal year 2015.

<i>September 30,</i>	2016	2015
Assets		
Current and other assets	\$ 2,803,505	\$ 2,923,985
Capital assets	19,743,996	20,289,972
Total assets	22,547,501	23,213,957
Deferred outflows of resources		
Deferred outflows - pension plan	814,945	370,153
Liabilities		
Long-term liabilities outstanding	7,189,411	6,810,039
Other liabilities	1,023,545	1,087,427
Total liabilities	8,212,956	7,897,466
Deferred inflows of resources		
Deferred inflows - pension plan	347,081	195,651
Net Position		
Net investment in capital assets	16,177,384	16,596,504
Restricted	18,430	183,883
Unrestricted	(1,393,405)	(1,289,394)
Total net position	\$ 14,802,409	\$ 15,490,993

Management's Discussion and Analysis

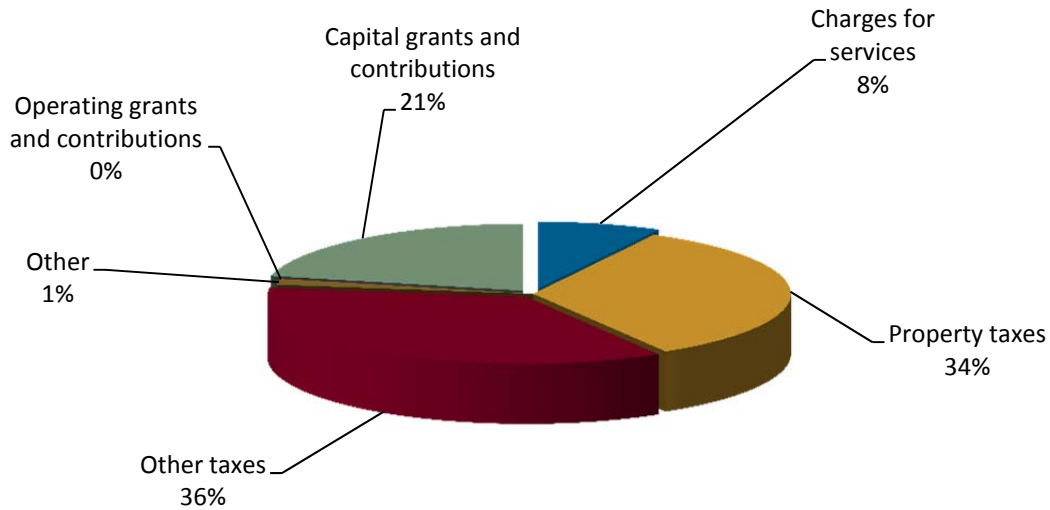
Governmental Activities

The net position of the City that relates to governmental activities decreased by \$688,584. Key elements of the change are as follows:

<i>Year ending September 30,</i>	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 506,451	\$ 451,731
Operating grants and contributions	19,766	23,720
Capital grants and contributions	1,397,616	656,526
General revenues:		
Property taxes	2,198,562	2,093,233
Other taxes	2,328,204	2,426,127
Other	70,939	182,998
Total revenues	6,521,538	5,834,335
Expenses:		
General government	1,777,965	1,621,080
Public safety	2,063,137	2,126,809
Public works	1,908,346	1,625,261
Grants	1,343,351	656,526
Interest	117,323	147,369
Total expenses	7,210,122	6,177,045
Change in net position	(688,584)	(342,710)
Net position - beginning	15,490,993	15,833,703
Net position - ending	\$ 14,802,409	\$ 15,490,993

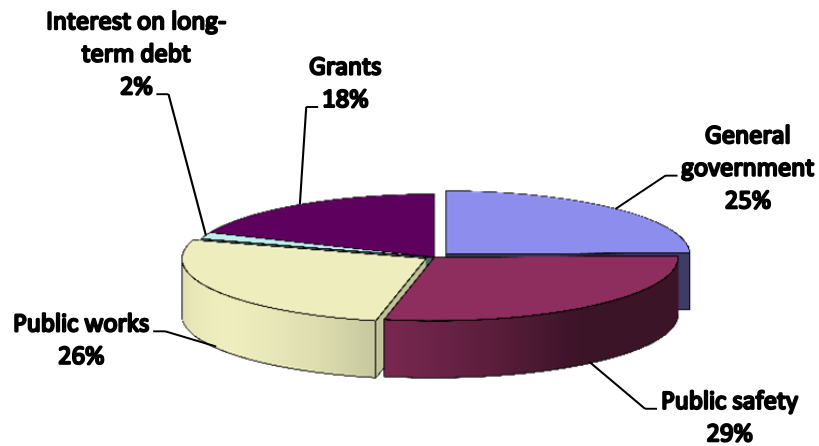
Graphic presentations of selected data from the changes in net position table follow to assist in the analysis of the City's activities.

GOVERNMENTAL REVENUES



For the fiscal year ended September 30, 2016, revenue from governmental activities totaled \$6,521,538.

GOVERNMENTAL FUNCTIONAL EXPENSES



For the fiscal year ended September 30, 2016, expenses from governmental activities totaled \$7,210,122, the largest portion of which relates to Public Safety (29%).

Management's Discussion and Analysis

Financial Analysis of the City's Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's governmental funds are discussed as follows:

Governmental Funds

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's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of September 30, 2016, the City's governmental funds reported an ending fund balance of \$1,651,530, which is a decrease of \$62,470 from last year's total of \$1,714,000. As a measure of the General Fund's liquidity, it may be useful to compare fund balance to total fund expenditures. The unassigned General Fund fund balance represents 32 percent of total General Fund expenditures.

General Fund Budgetary Highlights

During the year, there were no material increases or decreases in appropriations between the original and final budget of the General Fund, except for capital outlay. The final budget reflected the City's anticipated expenditures for various capital assets for which funding was not originally approved.

Capital Asset and Debt Administration

Capital Assets - The City's net investment in capital assets as of September 30, 2016, amounts to \$19,743,996 (net of accumulated depreciation). This net investment in capital assets includes land and improvements, buildings, machinery and equipment and infrastructure.

Capital Assets (Net of Accumulated Depreciation)

<i>September 30,</i>	2016	2015
Land	\$ 546,297	\$ 598,548
Buildings	3,621,285	3,790,247
Machinery and equipment	1,149,489	894,414
Infrastructure	12,177,848	12,626,212
Infrastructure Improvements	2,249,077	2,380,551
Total	\$ 19,743,996	\$ 20,289,972

Increases in capital assets were mainly attributable to the acquisition of new police and park department vehicles and related mobile equipment, an excavator and other equipment. Additional information on the City's capital assets can be found in Note 6 on page 36.

Management's Discussion and Analysis

Long-Term Debt

At September 30, long-term debt consisted of the following:

Outstanding Debt

General Obligation and Revenue Bonds and Notes Payable

<i>September 30,</i>	2016	2015
General Obligation Bonds, net	\$ 3,155,000	\$ 3,290,000
Bond Premium	\$ 160,903	170,960
Capital leases	\$ 411,612	222,067
Compensated absences	\$ 635,949	682,215
Net pension liability	\$ 2,825,947	2,444,797
Total	\$ 7,189,411	\$ 6,810,039

All general obligation bonds are scheduled to be retired by 2033.

Additional information on the City's long-term debt can be found in Note 7 beginning on page 37.

General Fund Highlights

Fund balance in the General Fund decreased to \$1,474,765. If needed, the use of available fund balance will avoid the need to significantly raise taxes in the near future.

Request for Information

The financial report is designed to provide a general overview of the City of Santa Fe, Texas' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Santa Fe, Texas: Joe Dickson, City Manager, P. O. Box 950, Santa Fe, Texas 77510.

City of Santa Fe, Texas
Statement of Net Position
September 30, 2016

	<u>Primary Government Governmental Activities</u>	<u>Component Unit Santa Fe Economic Development Corporation</u>
Assets		
Cash and cash equivalents	\$ 244,166	\$ 27,251
Investments	1,587,363	1,218,250
Receivables		
Property tax	154,025	-
Intergovernmental	120,203	1,261,414
Sales tax, franchise tax and other	677,769	-
Prepaid and other assets	1,549	-
Restricted cash and cash equivalents	18,430	-
Capital assets, net of depreciation	19,743,996	-
Total assets	22,547,501	2,506,915
Deferred Outflows of Resources		
Deferred outflows - pension plan	814,945	-
Liabilities		
Accounts payable	279,619	183,232
Accrued interest payable	10,246	-
Refundable deposit	118,200	-
Unearned revenue	495,277	-
Due to other governments	120,203	-
Noncurrent liabilities		
Due within one year	384,613	-
Due in more than one year	6,804,798	-
Total liabilities	8,212,956	183,232
Deferred Inflows of Resources		
Deferred inflow - pension plan	347,081	-
Net Position		
Net investment in capital assets	16,177,384	-
Restricted	18,430	-
Unrestricted	(1,393,405)	2,324,683
Total net position	\$ 14,802,409	\$ 2,324,683

The accompanying notes are an integral part of these financial statements.

City of Santa Fe, Texas
Statement of Activities
For the Year Ended September 30, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental Activities	Unit Santa Fe Economic Development Corporation
Governmental Activities:						
General government	\$ 784,634	\$ 28,153	\$ -	\$ 55,234	\$ (701,247)	\$ -
Tax	19,580	-	-	-	(19,580)	-
Community services	307,602	211,644	-	-	(95,958)	-
Civil service	6,132	-	-	-	(6,132)	-
Judicial	272,034	241,908	-	-	(30,126)	-
Police	2,045,243	49	11,572	-	(2,033,622)	-
Fire marshal	17,894	-	-	-	(17,894)	-
Animal control	102,953	-	-	-	(102,953)	-
Library	229,968	2,937	5,734	-	(221,297)	-
Streets	1,805,393	1,100	-	-	(1,804,293)	-
Parks	134,331	-	1,491	-	(132,840)	-
Community center	23,684	20,660	-	-	(3,024)	-
Interest on long-term debt	117,323	-	-	-	(117,323)	-
Grant expenditures	1,343,351	-	969	1,342,382	-	-
Total governmental activities	7,210,122	506,451	19,766	1,397,616	(5,286,289)	-
Component Unit:						
Santa Fe Economic Development Corporation	904,144	-	-	-	-	(904,144)
Total governmental activities	\$ 8,114,266	\$ 506,451	\$ 19,766	\$ 1,397,616	(5,286,289)	(904,144)
General Revenues						
Sales taxes					1,533,679	506,998
Property taxes, penalties and interest					2,198,562	-
Franchise taxes					794,525	-
Miscellaneous					62,991	-
Investment earnings					7,948	6,252
Special item - Contribution to Political Division - Galveston County Water Control Improvement District No. 8 - water and sewer infrastructure improvements					-	(233,654)
Total general revenues and special item					4,597,705	279,596
Change in net position					(688,584)	(624,548)
Net Position - beginning					15,490,993	2,949,231
Net Position - ending					\$ 14,802,409	\$ 2,324,683

The accompanying notes are an integral part of these financial statements..

City of Santa Fe, Texas
Balance Sheet
Governmental Funds
September 30, 2016

	General Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 69,506	\$ 174,660	\$ -	\$ 244,166
Investments	1,587,363	-	-	1,587,363
Receivables				
Taxes	140,108	13,917	-	154,025
Intergovernmental	-	-	120,203	120,203
Sales tax, franchise tax and other	674,549	3,220	-	677,769
Prepaid and other assets	1,549	-	-	1,549
Restricted cash and cash equivalents	18,430	-	-	18,430
Total assets	\$ 2,491,505	\$ 191,797	\$ 120,203	\$ 2,803,505
Liabilities				
Accounts payable and accrued liabilities	\$ 279,619	\$ -	\$ -	\$ 279,619
Refundable deposits	118,200	-	-	118,200
Unearned revenue	492,057	3,220	-	495,277
Due to other governments	-	-	120,203	120,203
Total liabilities	889,876	3,220	120,203	1,013,299
Deferred Inflows of Resources				
Unavailable revenue - property taxes	126,864	11,812	-	138,676
Total deferred inflows of resources	126,864	11,812	-	138,676
Fund Balances				
Restricted	332,528	140,051	-	472,579
Assigned	-	-	-	-
Unassigned	1,142,237	36,714	-	1,178,951
Total fund balances	1,474,765	176,765	-	1,651,530
Total liabilities, deferred inflows of resources and fund balances	\$ 2,491,505	\$ 191,797	\$ 120,203	\$ 2,803,505

The accompanying notes are an integral part of these financial statements..

City of Santa Fe, Texas
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
September 30, 2016

Differences in amounts reported for governmental activities in the Statement of Net Position.

Total fund balances - governmental funds	\$	1,651,530
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.		19,743,996
Deferred inflows and outflows of resources pertaining to actuarial pension differences between expected and actual economic experience (\$347,081), changes of actuarial assumptions (\$63,971) projected and actual investment earnings (\$505,880) and pension contributions made subsequent to the measurement date (\$245,094) are not financial resources and, therefore, are not reported in the funds.		467,864
Revenues that do not provide current financial resources are reported as deferred in the funds.		138,676
Long-term liabilities, including capital leases and the net pension liability, are not due and payable in the current period, and therefore, are not reported in the governmental funds.		(7,199,657)
<hr/>		
Net position of governmental activities	\$	<u>14,802,409</u>

The accompanying notes are an integral part of these financial statements.

City of Santa Fe, Texas

**Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds
For the Year Ended September 30, 2016**

	General Fund	Debt Service Fund	Special Revenue Fund	Total Governmental Funds
Revenues				
Property taxes	\$ 1,868,328	\$ 295,672	\$ -	\$ 2,164,000
Penalties and interest	25,802	3,083		28,885
Sales taxes	1,533,679			1,533,679
Franchise taxes	794,525	-	-	794,525
Licenses and permits	211,644	-	-	211,644
Fines and forfeitures	245,945	-	-	245,945
Investment earnings	7,414	534	-	7,948
Intergovernmental	55,234	-	1,342,382	1,397,616
Other	143,572	-	-	143,572
Total revenues	4,886,143	299,289	1,342,382	6,527,814
Expenditures				
General government	1,754,550	-	-	1,754,550
Public safety	1,847,560	-	-	1,847,560
Public works	1,169,875	-	-	1,169,875
Grant expenditures	969	-	1,342,382	1,343,351
Capital Outlay	636,726	-	-	636,726
Debt service:				
Principal	-	135,000	-	135,000
Interest and fiscal charges	-	127,575	-	127,575
Total expenditures	5,409,680	262,575	1,342,382	7,014,637
Excess (Deficiency) of revenues over (under) expenditures	(523,537)	36,714	-	(486,823)
Other Financing Sources				
Capital leases	424,353	-	-	424,353
Total other financing sources	424,353	-	-	424,353
Net change in fund balances	(99,184)	36,714	-	(62,470)
Fund Balances - beginning	1,573,949	140,051	-	1,714,000
Fund Balances - ending	\$ 1,474,765	\$ 176,765	\$ -	\$ 1,651,530

The accompanying notes are an integral part of these financial statements..

City of Santa Fe, Texas

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2016**

Differences in amounts reported for governmental activities in the Statement of Activities.

Net change in fund balances - total governmental funds	\$	(62,470)
Repayment of debt principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		416,269
Capital outlay, reported as expenditures in governmental funds, is shown as capital assets in the Statement of Net Position.		509,291
Depreciation expense on governmental capital assets is included in the governmental activities in the Statement of Activities.		(1,055,267)
Amortization expense on bond discount costs are included in the Statement of Activities; however, these charges are not included in the governmental funds.		10,057
The proceeds from the issuance of debt is reported as an other financing source in the governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Position.		(87,811)
Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds.		(418,653)
Change in net position of governmental activities	\$	(688,584)

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Santa Fe, Texas, was incorporated by virtue of an election 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 (the “City”) have been prepared in conformity with generally accepted accounting principles in the United States of America (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies.

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 (the “Corporation”) is the only component unit that should be included in the City’s basic financial statements. The Corporation is presented discretely and the financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit. 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 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position 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 position 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 position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

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. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, 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 position and changes in net position presented in the government-wide financial statements. The City has presented as major funds all funds that meet the qualifications of GASB Statement No. 34.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are reported as major governmental funds:

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Debt Service Fund – This fund accounts for the payment of interest and principal on the City's general long-term debt. The primary source of revenue for debt service is property taxes pursuant to requirements of the City's bond resolutions. Expenditures include costs incurred in assessing and collecting these taxes.

Special Revenue Fund – This fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes. The following grants are included in this fund:

Community Development Block Grant – Community Development 2013/2014 Grant – Contract #7214401

This grant is used to replace water lines in the City limits that are deteriorated resulting in inadequate water pressure and frequent maintenance issues.

Community Development Block Grant — Disaster Recovery Grant Program — Contract UGLO13- 078- 000-7101 - Round 2.2

This grant is used to facilitate disaster relief, recovery, restoration and economic revitalization in areas affected by Hurricane Ike. The funds purchased and installed a new ground storage tank at an existing plant and sewer line rehabilitation in various approved locations.

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 Position. The Statement of Activities presents changes in net position. 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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. The City records property tax revenues and municipal court fines on the cash basis until year end, at which time receipts received within sixty days of year end are accrued and the remaining amount deferred until they become available. Sales taxes, which are subsequently remitted to the City, are recognized as revenues and receivables when collected by the authorized agents. Franchise tax revenue is also recognized by the City as revenue in the year it is measurable and available. Licenses and permit fees, fines and forfeitures, 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.

Unavailable revenue is reported when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unavailable 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 unavailable revenue is removed from the balance sheet and revenue is recognized.

Cash and Cash Equivalents

The City’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.

Investments

The investment policy of the City 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments (Continued)

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.

Fair Value Measurements

During 2016, the City adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. This standard establishes a hierarchy in which fair value measurements are categorized. The implementation of this standard did not have a material impact on the City's financial statements.

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.

Restricted Cash and Cash Equivalents

The assets restricted by bond agreement as shown in the Statement of Net Position are to be used strictly to retire the long-term debt. The assets were accumulated according to the bond indenture of the various issues

Capital Assets

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

The City’s capital assets, except land, are depreciated using the straight line method of depreciation. The following represents the useful life and capitalization threshold of the City’s capital assets:

Asset type	Useful life	Capitalization Threshold
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
Computer 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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

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.

Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums, discounts and bond insurance are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item reported in this category, deferred outflows related to pension. A deferred outflow related to pension results from pension contributions related to normal and accrued employer liability (net of any refunds or error service payments) subsequent to the measurement date, in accordance with the implementation of GASB Statement No. 71.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category - deferred inflows related to pension and unearned property taxes. A deferred inflow related to pension results from the net difference between projected and actual earnings on plan investments, in accordance with the implementation of GASB Statement No. 71, and is amortized over five years beginning with the year in which the difference occurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position/Fund Equity

Net positions are reported on the government-wide financial statements and are required to be classified for accounting and reporting purposes into the following net position categories:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Any significant unspent proceeds at year-end related to capital assets are reported as restricted funds.

Restricted – Constraints imposed on net position by external creditors, grantors, contributors, laws or regulations of other governments, or law through constitutional provision or enabling legislation.

Unrestricted – Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the City Council.

Fund equity is reported in the fund financial statements in two major categories: nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The City has no nonspendable fund balance.

In addition to the nonspendable fund balance, spendable fund balances, are reported based on a hierarchy of spending constraints:

Restricted – Fund balances that are constrained by external parties, constitutional provisions or enabling legislation. The City's restricted fund balance primarily includes money market funds restricted for debt service.

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City has no fund balances classified as committed.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose.

Unassigned – Fund balances of the General Fund that are not constrained for any particular purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed to fund specific expenditures. When committed, assigned and unassigned resources can be used for the same purpose, the flow assumption in the City is to spend in the sequence of committed resources first, assigned second and unassigned last.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported for TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 1	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 within 60 days of year-end.

Management Estimates and Assumptions

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

Subsequent Events

Management of the City has evaluated subsequent events through July 10, 2016, the date the financial statements were available to be issued. No matters were noted affecting disclosures.

NOTE 2 – BUDGETARY ACCOUNTING

Annual appropriated budgets are adopted for the General Fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare.

The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget. Management has the authority to transfer available funds allocated by the budget from one function or activity to another function or activity within the same department.

In cooperation with the department heads of the City, the City Manager prepares an annual budget for the General Fund and Debt Service for the ensuing fiscal year, in a form and style as deemed desirable by Council. The budget, as adopted, must set forth the appropriations for services, functions, and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and required by applicable bond covenants.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Investment 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, 2016, all of the City's investments were invested for a period of one year or less. It is the City's policy to limit its investments to investment types with an investment quality rating not less than AAA by a nationally recognized rating agency. Investment pools must be continuously rated no lower than AAA or AAAM 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.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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, 2016:

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

For deposits, custodial credit risk 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, 2016, 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 \$752,603 and the bank balance was \$810,959. Of this bank balance, \$250,000 is covered by federal depository insurance. The remaining balance 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 carrying value of cash and cash equivalents (which approximated fair value) consisted of:

<i>September 30,</i>	<i>2016</i>
Demand and time deposits	\$ 262,096
Petty cash	500
Total cash and cash equivalents	262,596
Less restricted cash and cash equivalents	(18,430)
Unrestricted cash and cash equivalents	\$ 244,166

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments

The City has the following investments as of September 30, 2016:

:

Investment Type	Value	Weighted Average Maturity (Days)	Allocation	Rating
Local government investment pools	\$ 1,097,356	1	69.1%	AAAm
Certificates of deposit	483,826	100	30.5%	
Money market mutual fund	6,181	1	0.4%	
	\$ 1,587,363		100.0%	

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 & Poor’s. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, 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 had \$75,407 invested in TexPool as of September 30, 2016. 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.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The TexPool portfolio is made up of the following:

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

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

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

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

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

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

LOGIC - The City is a participant in a Local Government Investment Cooperative ("LOGIC" or the "Cooperative") 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 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.

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The City had \$1,021,949 invested in LOGIC I as of September 30, 2016. The LOGIC I Portfolio is comprised of the following eligible investments:

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

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

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

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 1 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

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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. As of September 30, 2016, the City had no concentration of credit risk.

As of September 30, 2016, the City’s external investment pools including those of the City’s discretely presented component unit, meet the criteria described in GASB Statement No. 79 and measure all of their investments at amortized cost; therefore, the City has also measured their investments in these external investment pools at amortized cost for financial reporting purposes. In addition, the pools do not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity or redemption gates.

NOTE 4 – RECEIVABLES

Receivables as of September 30, 2016 are as follows:

	Governmental Activities			Total Governmental Funds
	General Fund	Debt Service Fund	Special Revenue Fund	
Property tax	\$ 164,500	\$ 15,226	\$ -	\$ 179,726
Intergovernmental	-	-	120,203	120,203
Sales tax, franchise tax and other	1,520,466	3,578	-	1,524,044
	1,684,966	18,804	120,203	1,823,973
Less allowance for collectibility	(870,309)	(1,667)	-	(871,976)
Totals	\$ 814,657	\$ 17,137	\$ 120,203	\$ 951,997

NOTE 5 – INTERFUND ACTIVITY

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, 2016. Also, no interfund transfers occurred during the year ended September 30, 2016.

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 598,548	\$ -	\$ 52,251	\$ 546,297
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	598,548	-	52,251	546,297
Capital assets, being depreciated:				
Buildings	4,096,507	-	75,184	4,021,323
Buildings Improvements	240,015	17,693	-	257,708
Computer	350,469	9,986	-	360,455
Equipment	1,367,092	281,598	-	1,648,690
Furniture and Fixtures	53,445	-	-	53,445
Improvements (other than building)	92,099	29,044	-	121,143
Infrastructure	26,845,854	-	-	26,845,854
Infrastructure improvements	4,394,016	162,502	-	4,556,518
Radios	206,031	-	-	206,031
Vehicles	713,442	135,903	-	849,345
Total capital assets, being depreciated	38,358,970	636,726	75,184	38,920,512
Less accumulated depreciation for:				
Buildings	(441,477)	(100,579)	-	(542,056)
Buildings Improvements	(104,798)	(10,892)	-	(115,690)
Computer	(300,052)	(20,081)	-	(320,133)
Equipment	(972,329)	(92,701)	-	(1,065,030)
Furniture and Fixtures	(16,735)	(4,228)	-	(20,963)
Improvements (other than building)	(53,984)	(7,200)	-	(61,184)
Infrastructure	(14,219,642)	(448,364)	-	(14,668,006)
Infrastructure improvements	(2,013,465)	(293,974)	-	(2,307,439)
Radios	(107,117)	(17,470)	-	(124,587)
Vehicles	(437,947)	(59,778)	-	(497,725)
Total accumulated depreciation	(18,667,546)	(1,055,267)	-	(19,722,813)
Total capital assets, being depreciated, net	19,691,424	(418,541)	75,184	19,197,699
Governmental activities capital assets, net	\$ 20,289,972	\$ (418,541)	\$ 127,435	\$ 19,743,996

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 6 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions of governmental activities as follows:

Year ended September 30,	2016
General government	\$ 16,431
Community service	4,841
Police/judicial	173,470
Library	11,229
Streets	830,850
Community center	6,943
Fire marshal	2,425
Parks	9,078
Total depreciation expense - governmental activities	\$ 1,055,267

A summary of changes in the discretely presented component unit (Santa Fe Economic Development Corporation) capital assets for the year ended September 30, 2016, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 28,399	\$ -	\$ 28,399	\$ -
Construction in progress	205,255	-	205,255	-
Total capital assets, not being depreciated	\$ 233,654	\$ -	\$ 233,654	\$ -

NOTE 7 – LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 3,290,000	\$ -	\$ 135,000	\$ 3,155,000	\$ 140,000
Bond premium	170,960	-	10,057	\$ 160,903	-
Capital leases	222,067	424,353	234,808	\$ 411,612	181,018
Net pension liability	2,444,797	740,098	358,948	\$ 2,825,947	-
Compensated absences	682,215	291,656	337,922	\$ 635,949	63,595
	\$ 6,810,039	\$ 1,456,107	\$ 1,076,735	\$ 7,189,411	\$ 384,613

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (Continued)

Bonds payable at September 30, 2016, is comprised of the following individual issue:

	Original Issue	Matures	Interest rate (%)	Interest Payment Dates	Debt Outstanding
Governmental Activities:					
General obligation bonds, Series 2013	\$ 3,535,000	2033	3.0-5.0	March 1 / Sept. 1	\$ 3,155,000

Debt service requirements on long-term debt at September 30, 2016 is as follows:

Governmental Activities - General Obligation Bonds			
Fiscal Year Ending September 30,	Principal	Interest	Total
2017	\$ 140,000	\$ 122,950	\$ 262,950
2018	145,000	118,675	263,675
2019	150,000	114,250	264,250
2020	150,000	109,750	259,750
2021	155,000	105,175	260,175
2022-2026	860,000	443,825	1,303,825
2027-2031	1,055,000	252,150	1,307,150
2032-2033	500,000	25,250	525,250
	\$ 3,155,000	\$ 1,292,025	\$ 4,447,025

The City is in compliance with all significant bond requirements and restrictions contained in the bond resolutions.

A summary of changes in the unamortized bond premium follows:

	Original Premium	Beginning Balance	Current Year Additions	Current Year Amortization	Ending Balance
Governmental Activities:					
General obligation bonds, Series 2013	\$ 201,130	\$ 170,960	\$ -	\$ 10,057	\$ 160,903

NOTE 7 – LONG-TERM DEBT (Continued)

As September 30, 2016, the future minimum lease payments on the capital leases are as follows:

Fiscal Year Ending September 30,	Governmental Activities
2017	\$ 190,532
2018	137,146
2019	51,194
2020	51,195
Total minimum lease payment	430,067
Less: amount representing interest	(18,455)
Present value of minimum lease payments	\$ 411,612

NOTE 8 – DEFERRED INFLOWS OF RESOURCES – GOVERNMENT FUNDS

Property taxes are levied by the County Commission in February each year based on property records as of the preceding October 1. The enforceable legal claim exists as of the levy date preceding each October when property taxes are assessed. At September 30, 2016 deferred inflows of resources in the General Fund consisted of unearned revenue – property taxes of \$138,676.

NOTE 9 – DEFINED BENEFIT PENSION PLAN

Defined Benefit Pension Plan

Plan description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (“TMRS”). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (“the TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (“CAFR”) that can be obtained at www.tmr.com.

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.

Benefits provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

<i>December 31,</i>	2015
Inactive employees or beneficiaries currently receiving benefits	19
Inactive employees entitled to but not yet receiving benefits	58
Active members	61
Total	138

Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (“EAN”) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Santa Fe, Texas, were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City of Santa Fe, Texas, were 12.61% and 12.31% of covered payroll in calendar years 2015 and 2016, respectively. The City’s contributions to TMRS for the year ended September 30, 2016, were \$388,894, and were equal to the required contribution

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015.

Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary increases	3.50% to 10.5%, including inflation
Investment rate of return	6.75% , net of pension plan investment expense, including inflation

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation.

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100%	

Discount rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Changes in net pension liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2014	\$10,630,243	\$8,185,446	\$2,444,797
Changes for the year:			
Service cost	426,311	-	426,311
Interest	750,133	-	750,133
Difference between expected and actual experience	(264,874)	-	(264,874)
Changes of assumptions	82,954	-	82,954
Contributions - employer	-	391,622	(391,622)
Contributions - employee	-	217,395	(217,395)
Net investment income	-	12,077	(12,077)
Benefit payments, including refunds of employee contributions	(254,426)	(254,426)	-
Administrative expense	-	(7,357)	7,357
Other changes	-	(363)	363
Net changes	740,098	358,948	381,150
Balance at December 31, 2015	\$11,370,341	\$8,544,394	\$2,825,947

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the City's net pension liability calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 4,597,205	\$ 2,825,947	\$ 1,388,268

Pension plan fiduciary net position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

City of Santa Fe, Texas
Notes to Financial Statements

NOTE 9 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$430,560. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 347,081
Changes of actuarial assumptions	63,971	-
Difference between projected and actual investment earnings	505,880	-
Contribution subsequent to the measurement date	245,094	-
Total	\$ 814,945	\$ 347,081

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$245,094 will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2016	\$ 36,772
2017	36,772
2018	52,450
2019	96,776
	\$ 222,770

NOTE 10 – RISK MANAGEMENT AND LITIGATION

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 Texas municipalities and other governmental units. 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. 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.

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 employees' 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 employees' 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 11 - 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 at September 30, 2016.

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.



REQUIRED SUPPLEMENTARY INFORMATION

City of Santa Fe
General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended September 30, 2016

	Budgeted Amounts		Actual	Variance from Final Budget
	Original	Final		
Revenues				
Property tax	\$ 1,885,511	\$ 1,885,511	\$ 1,868,328	\$ (17,183)
Penalties and interest	30,000	30,000	25,802	(4,198)
Sales taxes	1,751,000	1,751,000	1,533,679	(217,321)
Franchise taxes	765,000	765,000	794,525	29,525
License and permits	137,375	162,244	211,644	49,400
Fine and forfeitures	246,612	239,319	245,945	6,626
Investment earnings	5,000	5,000	7,414	2,414
Intergovernmental	-	-	55,234	55,234
Other	345,759	414,052	143,572	(270,480)
Total Revenue	5,166,257	5,252,126	4,886,143	(365,983)
Expenditures				
<i>Current:</i>				
General government	1,625,644	1,714,055	1,740,289	(26,234)
Public safety	2,380,744	2,396,351	2,106,115	290,236
Public works	946,068	979,332	925,581	53,751
Grant	-	-	969	(969)
Capital Outlay	199,090	631,030	636,726	(5,696)
Total Expenditures	5,151,546	5,720,768	5,409,680	311,088
<i>Excess (Deficiency) of revenues over (under) expenditures</i>				
	14,711	(468,642)	(523,537)	(54,895)
Other Financing Sources				
Capital leases	-	424,353	424,353	-
Total other financing sources	-	424,353	424,353	-
Net change in fund balance	14,711	(44,289)	(99,184)	(54,895)
Fund balance - beginning	1,573,949	1,573,949	1,573,949	-
Fund balance - ending	\$ 1,573,949	\$ 1,529,660	\$ 1,474,765	\$ (54,895)

See independent auditors' report.

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended September 30, 2016**

Budget and Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Expenditures may not legally exceed budgeted appropriations at the department level. Expenditures requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the authority to transfer available funds allocated by the budget from one function or activity to another function or activity within the same department.

In cooperation with the department heads of the City, the City Manager prepares an annual budget for the General Fund and Enterprise Funds for the ensuing fiscal year, in a form and style as deemed desirable by Council. The budget, as adopted, must set forth the appropriations for services, functions, and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and required by applicable bond covenants.

For the year ending September 30, 2016, expenditures exceeded appropriations in the following General Fund departments:

Department	Expenditures in Excess of Appropriations
General Government	
General administration	\$ (79,128)
Grant expenditures	\$ (969)

City of Santa Fe
Required Supplementary Information
Changes in Pension Liability

	Last Ten Years*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Total Pension Liability										
Service cost	\$ 426,311	\$ 385,401	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Interest (on the total pension liability)	750,133	708,090	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Changes of benefit terms	-	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Difference between expected and actual experience	(264,874)	(248,483)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Change of assumptions	82,954	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of employee contributions	(254,426)	(275,261)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in total pension liability	740,098	569,747	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability - beginning	10,630,243	10,060,496	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total pension liability - ending (a)	\$ 11,370,341	\$ 10,630,243	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Plan fiduciary net position										
Contribution - employer	391,622	376,315	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contribution - employee	217,395	207,581	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net investment income	12,077	426,592	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Benefit payments, including refunds of employee contributions	(254,426)	(275,261)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Administrative expense	(7,357)	(4,453)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	(363)	(366)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net change in plan fiduciary net position	358,948	730,408	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position - beginning	8,185,446	7,455,038	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position - ending (b)	\$ 8,544,394	\$ 8,185,446	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Net Pension Liability - ending (a) - (b)	\$ 2,825,947	\$ 2,444,797	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Plan fiduciary net position as a percentage of total pension liability	75.15%	77.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Covered employee payroll	\$ 3,104,958	\$ 2,965,437	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Net position liability as a percentage of covered employee payroll	91.01%	82.44%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* GASB 68 requires ten years of data to be provided in this schedule, however, only two years are currently available.

Notes to schedule: N/A

See independent auditors' report.

**City of Santa Fe
Required Supplementary Information
Schedule of Employer Contributions**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contributions	\$ 391,622	\$ 376,315	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contributions in relation to the actuarially determined contributions	\$ 391,622	\$ 376,315	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contribution deficiency (Excess)	\$ -	\$ -	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Covered employee payroll	\$ 3,140,070	\$ 3,043,128	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A	\$ N/A
Contribution as a percentage of covered employee payroll	12.47%	12.37%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*GASB 68 requires ten years of data to be provided in this schedule, however, only two years are currently available.

See independent auditors' report.

City of Santa Fe
Required Supplementary Information
Schedule of Employer Contributions (Continued)

Notes to Schedule of Contributions

Valuation Date

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	10 years smoothed market; 15% soft corridor
Inflation	2.50%
Salary increases	3.50 to 10.50%, including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including Inflation
Retirement age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other information	There were no benefit changes during the year



OTHER SUPPLEMENTARY INFORMATION

**City of Santa Fe
Supplementary Information
Schedule of Temporary Investments**

September 30, 2016

Funds	Identification or Acct/Certificate Number	Interest Rate (%)	Maturity Date	Balance at 9/30/2016	Accrued Interest
General Fund					
TexPool	449/840500001	0.40%	N/A	\$ 75,407	\$ -
Logic	742017295	0.75%	N/A	1,021,949	-
Texas First Bank MM	10084929	0.10%	N/A	6,181	-
Texas First Bank CD	41002947	0.50%	8/24/2017	124,700	-
Texas First Bank CD	41002948	0.50%	8/24/2017	124,700	-
Texas First Bank CD	41002950	0.50%	8/24/2017	234,426	-
Total General Fund				\$ 1,587,363	\$ -

See independent auditors' report.

**City of Santa Fe
Supplementary Information
Analysis of Taxes Levied and Receivable**

	General Fund	Debt Service Fund	Total
Taxes receivable - October 1, 2015	\$ 161,518	\$ 12,558	\$ 174,076
Additions and corrections - prior years	(4,654)	(183)	(4,837)
Adjusted taxes receivable - October 1, 2015	156,864	12,375	169,239
Original tax roll 2015	1,857,273	295,092	2,152,365
Additions and corrections - current year	23,359	3,712	27,071
Adjusted tax roll	1,880,632	298,804	2,179,436
Total to be accounted for	2,037,496	311,179	2,348,675
Tax collections			-
Current year	1,838,177	291,870	2,130,047
Prior year	34,819	4,083	38,902
Total collections	1,872,996	295,953	2,168,949
Taxes receivable - September 30, 2016	\$ 164,500	\$ 15,226	\$ 179,726
Taxes receivable - by tax year			-
2015	\$ 58,030	\$ 9,261	\$ 67,291
2014	23,387	3,917	27,304
2013	12,257	2,048	14,305
2012	9,637	-	9,637
2011	8,183	-	8,183
2010 - prior	53,006	-	53,006
Taxes receivable - September 30, 2016	\$ 164,500	\$ 15,226	\$ 179,726
	2015	2014	2013
Property valuations			
Total property valuations	\$ 631,720,580	\$ 594,589,235	\$ 545,026,472
Tax rates Per \$100 valuations			
Maintenance and operations	\$ 0.2977	\$ 0.3074	\$ 0.3172
Debt service	0.0473	0.0515	0.0530
Total Tax Rate per \$100 Valuation	\$ 0.3450	\$ 0.3589	\$ 0.3702
Tax rolls	\$ 2,179,436	\$ 2,133,981	\$ 2,017,688

See independent auditors' report.

City of Santa Fe
Supplementary Information
Comparative Balance Sheet – General Fund

<i>As of September 30,</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 69,506	\$ 33,354
Investments	1,587,363	1,632,637
Receivables:		
Property tax	140,108	137,218
Intergovernmental	-	83,729
Sales tax, franchise tax and other	674,549	647,837
Prepays	1,549	25,420
Restricted cash and equivalents	18,430	18,412
Total Assets	\$ 2,491,505	\$ 2,578,607
Liabilities, Deferred Inflows of Resources and Fund Balance		
Liabilities		
Accounts payable and accrued liabilities	\$ 279,619	\$ 301,811
Refundable deposits	118,200	116,400
Unearned revenue	492,057	464,808
Total Liabilities	889,876	883,019
Deferred Inflows of Resources		
Unavailable revenue - property taxes	126,864	121,639
Fund Balance		
Restricted	332,528	43,832
Assigned	-	287,759
Unassigned	1,142,237	1,242,358
Total Fund Balance	1,474,765	1,573,949
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,491,505	\$ 2,578,607

See independent auditors' report.

City of Santa Fe
Supplementary Information

**Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget
and Actual – General Fund**

Year ended September 30, 2016 with Comparative Actual Balances for Year ended September 30, 2015

	2016			2015
	Budget	Actual	Variance	Actual
Revenue				
Property Tax	\$ 1,885,511	\$ 1,868,328	\$ (17,183)	1,775,812
Penalties and interest	30,000	25,802	(4,198)	29,861
Sales taxes	1,751,000	1,533,679	(217,321)	1,680,305
Franchise taxes	765,000	794,525	29,525	745,822
License and permits	162,244	211,644	49,400	189,635
Fines and forfeitures	239,319	245,945	6,626	229,294
Investment earnings	5,000	7,414	2,414	4,475
Intergovernmental	-	55,234	55,234	4,275
Other	414,052	143,572	(270,480)	232,532
Total revenue	5,252,126	4,886,143	(365,983)	4,892,011
Expenditures				
General Government				
General administration	730,884	810,012	(79,128)	672,116
Tax	20,809	19,580	1,229	18,895
Community center	18,548	16,741	1,807	13,736
Library	232,935	215,470	17,465	200,328
Judicial	265,459	265,198	261	297,276
Parks	134,662	114,363	20,299	101,765
Community services	310,758	298,925	11,833	283,464
Total general government	1,714,055	1,740,289	(26,234)	1,587,580
Public safety				
Police	2,366,416	2,090,646	275,770	2,049,124
Fire marshall	29,935	15,469	14,466	13,455
Total public safety	2,396,351	2,106,115	290,236	2,062,579
Public works				
Public safety	103,422	102,953	469	84,263
Streets	875,910	822,628	53,282	741,139
Total public works	979,332	925,581	53,751	825,402
Grant expenditures	-	969	(969)	-
Capital Outlay	631,030	636,726	(5,696)	579,464
Debt Service - interest	-	-	-	5,816
Total expenditures	5,720,768	5,409,680	311,088	5,060,841
Deficiency of revenues under expenditures	(468,642)	(523,537)	(54,895)	(168,830)
Other financing sources				
Capital leases	424,353	424,353	-	156,643
Total other financing sources	424,353	424,353	-	156,643
Net change in fund balance	(44,289)	(99,184)	(54,895)	(12,187)
Fund Balance - beginning	1,573,949	1,573,949	-	1,586,136
Fund Balance - ending	\$ 1,529,660	\$ 1,474,765	\$ (54,895)	\$ 1,573,949

See independent auditors' report.

**City of Santa Fe
Supplementary Information
Schedule of Insurance Coverage**

For the year ended September 30, 2016

Type of Coverage	Amount of Coverage	Name	Type of Corp.	Policy Clause
Fidelity Bonds Public employees blanket bond	\$ 10,000	The Hartford	Gov't.	None
Surety Bonds Crime Policy Depositor's forgery coverage	\$ 50,000 n/a	The Hartford	Gov't.	None
Real and Personal Property Property damage Mobile Equipment Boiler & Machinery	\$ 6,544,195 \$ 1,303,393 \$ 100,000	Texas Municipal League (IRP)	Gov't	None
Automobile Liability: Commercial Bodily injury - each person Property damage - each occurrence	\$ 25,000 \$ 1,000,000	Texas Municipal League (IRP)	Gov't.	None
Worker's Compensation	Statutory	Texas Municipal League (IRP)	Gov't.	None
General Liability - Occurrence/Annual Aggregate	\$ 2,000,000 / \$ 4,000,000	Texas Municipal League (IRP)	Gov't.	None
Public Official Liability - Occurrence/Annual Aggregate	\$ 2,000,000 / \$ 4,000,000	Texas Municipal League (IRP)	Gov't.	None
Windstorm and Hail	\$ 6,719,350	Texas Municipal League / Victor O. Schinneren & Co. Inc. / AMRise Carriers	Gov't.	None
Law Enforcement Liability - Occurrence/Annual Aggregate	\$ 2,000,000 / \$ 4,000,000	Texas Municipal League (IRP)	Gov't.	None

See independent auditors' report.

City of Santa Fe
Supplementary Information
Combining Schedule of Long-term Debt by Maturity Date – Governmental
Activities

Fiscal Year Ending	Total Requirements - All Long-Term Debt			General Obligation Bonds, Series 2013		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 321,018	\$ 132,464	\$ 453,482	\$ 140,000	\$ 122,950	\$ 262,950
2018	276,765	124,056	400,821	145,000	118,675	263,675
2019	198,832	116,612	315,444	150,000	114,250	264,250
2020	199,997	110,948	310,945	150,000	109,750	259,750
2021	155,000	105,175	260,175	155,000	105,175	260,175
2022	160,000	100,450	260,450	160,000	100,450	260,450
2023	165,000	95,575	260,575	165,000	95,575	260,575
2024	170,000	89,700	259,700	170,000	89,700	259,700
2025	180,000	82,700	262,700	180,000	82,700	262,700
2026	185,000	75,400	260,400	185,000	75,400	260,400
2027	195,000	67,800	262,800	195,000	67,800	262,800
2028	200,000	59,900	259,900	200,000	59,900	259,900
2029	210,000	51,700	261,700	210,000	51,700	261,700
2030	220,000	42,000	262,000	220,000	42,000	262,000
2031	230,000	30,750	260,750	230,000	30,750	260,750
2032	245,000	18,875	263,875	245,000	18,875	263,875
2033	255,000	6,375	261,375	255,000	6,375	261,375
	<u>\$ 3,566,612</u>	<u>\$ 1,310,480</u>	<u>\$ 4,877,092</u>	<u>\$ 3,155,000</u>	<u>\$ 1,292,025</u>	<u>\$ 4,447,025</u>

Fiscal Year Ending	Capital Lease - Various Radios			Capital Lease -Various Equipment 2015		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 23,492	\$ 1,154	\$ 24,646	\$ 52,206	\$ 1,180	\$ 53,386
2018	24,062	584	24,646	-	-	-
	<u>\$ 47,554</u>	<u>\$ 1,738</u>	<u>\$ 49,292</u>	<u>\$ 52,206</u>	<u>\$ 1,180</u>	<u>\$ 53,386</u>

Fiscal Year Ending	Capital Lease -Gradall excavator			Capital Lease -Equipment and Vehicles		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 58,742	\$ 2,565	\$ 61,307	\$ 46,578	\$ 4,615	\$ 51,193
2018	60,011	1,296	61,307	47,692	3,501	51,193
2019	-	-	-	48,832	2,362	51,194
2020	-	-	-	49,997	1,198	51,195
	<u>\$ 118,753</u>	<u>\$ 3,861</u>	<u>\$ 122,614</u>	<u>\$ 193,099</u>	<u>\$ 11,676</u>	<u>\$ 204,775</u>

See independent auditors' report.



SINGLE AUDIT REPORTS

City of Santa Fe, Texas
Schedule of Expenditures of Federal Awards

For the year ended September 30, 2016

Grantor / Pass-through grantor / Program and Period	CFDA Number	Contract Number	Program or Award Amount	Expenditures
U.S. Department of Housing and Urban Development				
Passed through Texas Department of Agriculture				
Community Development 2013/2014 Grants				
10/15/14 - 10/14/16	14.228	7214401	\$ 350,000	\$ 104,141
Passed through Texas General Land Office				
Community Development Block Grant Disaster Recovery				
09/25/12 - 12/31/18	14.228	GLO 13-078-000-7101	2,337,719	1,238,241
Total U.S. Department of Housing and Urban Development				1,342,382
Institute of Museum and Library Services				
Passed through Texas State Library and Archives Commission				
Interlibrary Loan Lending Reimbursement Program				
9/1/15 - 8/31/16	45.310	LS-15-0044-15		969
Total federal awards				\$ 1,343,351

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



City of Santa Fe, Texas
Notes to Schedule of Expenditures of Federal Awards

NOTE 1: BASIS OF PRESENTATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") present the federal fund expenditures of all federal award programs of the City of Santa Fe, Texas (the "City") for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost of Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the City's financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles as found in the Uniform Guidance for federal awards.

NOTE 3: RELATIONSHIP TO FINANCIAL REPORTS SUBMITTED TO GRANTOR AGENCIES

Amounts reflected in the financial reports filed with grantor agencies for the programs and the supplementary schedule may not agree because of accruals included in the next report filed with the agencies and different program year ends.

NOTE: INDIRECT COST RATE

The Uniform Guidance allows an organization to elect a 10% de minimus indirect cost rate. For the year ended September 30, 2016, the City did not elect to use this rate.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit and each major fund of the City of Santa Fe, Texas (the “City”), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise City’s basic financial statements, and have issued our report thereon dated July 10, 2017. The financial statements of The City of Santa Fe Section 4B Economic Development Corporation, a discretely presented component unit of the City, were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

Houston, Texas

July 10, 2017



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INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the City of Santa Fe, Texas’ (the “City”) compliance with the types of compliance requirements described in the *OMB 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, 2016. The City’s major federal program is identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Caru, Riggs & Ingram, L.L.C.

Houston, Texas

July 10, 2017

City of Santa Fe, Texas
Schedule of Findings and Questioned Costs

SECTION I – SUMMARY OF AUDITORS’ RESULTS

2016 Financial Statements

Type of auditors’ report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____yes	___X___no
• Significant deficiencies identified?	_____yes	___X___none reported
Noncompliance material to financial statements noted?	_____yes	___X___no

2016 Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____yes	___X___no
• Significant deficiencies identified?	_____yes	___X___none reported
Type of auditors’ report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	_____yes	___X___no

Identification of major programs:

<u>CFDA number</u>	<u>Name of Federal Programs</u>
14.228	Community Development Block Grant Disaster Recovery
14.228	Community Development 2013/2014 Grants

Dollar threshold used to distinguish between Type A and Type B for federal programs:	\$750,000	
Auditee qualified as low-risk federal auditee?	_____yes	___X___no



**City of Santa Fe, Texas
Schedule of Findings and Questioned Costs**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported for the year ended September 30, 2016.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported for the year ended September 30, 2016.

SCHEDULE OF PRIOR YEAR FINDINGS

None reported for the year ended September 30, 2015.