

CITY OF SANTA FE, Texas

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

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

CITY OF SANTA FE, TEXAS
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

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INTRODUCTORY SECTION



**CITY OF SANTA FE, TEXAS
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CITY COUNCIL

Ralph Stenzel	Mayor
Ronald "Bubba" Jannett	Mayor Pro-Tem
Joe Carothers	Council Member
Rebecca A. Darden	Council Member
Pam Schwertner	Council Member
Jeff Tambrella	Council Member

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





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

Phone: 409-925-2572

Fax: 409-925-4320

Email: cambianocpas@aol.com

P. O. Box 936
4230 Warpath
Santa Fe, TX 77510-0936

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

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Santa Fe, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Santa Fe, Texas, as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2009 on our consideration of the City of Santa Fe, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 15, budgetary comparison information on pages 55 through 63, and the schedule of funding progress on page 64, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary financial information included on pages 65 through 73 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards, included on page 78, is presented for purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The other supplementary financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Cambiano & Cambiano, P.C.".

Cambiano and Cambiano, P.C.

Santa Fe, Texas

September 10, 2009

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008**

This section of the City of Santa Fe, Texas' annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2008. Please read it in conjunction with the basic financial statements and the accompanying notes to basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ending September 30, 2008 by \$20,879,535 (net assets). Of this amount, \$1,547,010 (unrestricted net assets) may be used to meet the government's ongoing obligations in accordance with the City's fund designation and fiscal policies, \$283,163 is for restricted uses, and \$19,049,363 are capital assets, net of related debt.
- The City's total net assets increased by \$4,033,891 compared to a decrease of \$81,657 in the prior year. This large increase in the current fiscal year is due mainly to street and drainage infrastructure contributions from municipalities (\$4,152,236) and subdivision developers (\$146,000) for a total amount of \$4,298,236. Please see Table 2, page 8 for a more detailed analysis of the change in net assets.
- In contrast to the government-wide statements, the fund statements reported a combined fund balance at year-end of \$1,942,166, an increase of \$244,470 from the prior year. Of this amount, \$1,656,126 is available for use at the City's discretion.
- The City's total capital lease debt increased by a net of \$83,292 during the current fiscal year due to the incurring of new debt of \$292,634 less principal payments of \$209,342.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities. These two statements are designed to provide readers with a broad overview of the City's finances utilizing the full accrual method of accounting, in a manner similar to a private-sector business. Under the full accrual method of accounting, transactions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus,

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

assets, liabilities, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This statement combines and consolidates governmental funds current financial resources (short term spendable resources) with capital assets and long-term obligations.

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

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and governmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

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

The government-wide financial statements can be found on pages 16 through 18 of this report.

Fund Financial Statements

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements utilize the modified accrual basis of accounting, which focuses on near-term inflow and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Comparing the information presented for governmental funds with the information presented for governmental activities in the government-wide financial statements will help the reader to better understand the long-term impact of

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

the government's near-term financing decisions. The governmental funds balance sheet, statement of revenues, expenditures, and changes in fund balances include a reconciliation to provide such comparison.

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

The governmental fund financial statements can be found on pages 19 through 26 of this report.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to Basic Financial Statements can be found immediately following the basic financial statements on pages 27 through 54.

Required Supplementary Information

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

The Required Supplementary Information can be found on pages 55 through 64 of this report.

Other Supplementary Information

This section presents information, in the form of schedules, which support the information in the basic financial statements. This information can be found on pages 65 through 73 of this report.

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

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$20,879,535 at the close of the current fiscal year.

As shown in Table 1, as of September 30, 2008, the largest portion of the City's net assets (91.2%) reflects its investments in capital assets (e.g. land, buildings, equipment, improvements, radios, vehicles, computers, furniture and fixtures, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens.

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

Therefore, these assets are not available for future spending. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1
Net Assets**

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 3,714,978	\$ 2,508,140
Capital assets	<u>19,402,321</u>	<u>15,498,451</u>
Total Assets	<u>23,117,299</u>	<u>18,006,591</u>
Current and other liabilities	1,811,896	771,295
Long-term liabilities	<u>425,868</u>	<u>389,652</u>
Total Liabilities	<u>2,237,764</u>	<u>1,160,947</u>
Net Assets:		
Invested in capital assets, net of related debt	19,049,362	15,228,784
Restricted	283,163	237,269
Unrestricted	<u>1,547,010</u>	<u>1,379,591</u>
Total Net Assets	<u>\$ 20,879,535</u>	<u>\$ 16,845,644</u>

Governmental type activities increased the City's net assets by \$4,033,891 during the current fiscal year. The following table provides a summary of the City's operations for the year ended September 30, 2008.

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 497,978	\$ 406,177
Operating grants and contributions	1,333,361	314,172
Capital grants and contributions	4,314,381	8,435
General revenues:		
Property taxes	1,265,457	1,198,365
Sales tax	1,347,333	1,302,769
Franchise tax and contract fees	636,940	574,235
Investment earnings	72,252	89,788
Penalties and interest on property taxes	25,900	32,506
Gain (loss) on sale of capital assets	(3,094)	(16,242)
Other	15,884	11,641
<u>Total Revenues</u>	<u>9,506,392</u>	<u>3,921,846</u>
Expenses:		
General government administration	455,056	416,978
Tax	13,060	10,594
Community service	249,171	228,992
Judicial/Police	2,005,433	1,698,622
Fire marshal	10,315	8,022
Public safety	934,748	55,278
Library	171,038	163,009
Streets	1,243,942	1,030,389
Parks	80,688	83,248
Community center	24,690	29,467
Interest on long-term debt	11,542	8,100
Home Investment Partnerships Program	1,420	-
Federal Emergency Management (FEMA) Public Assistance Grant Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program	-	-
<u>Total Expenses</u>	<u>5,472,501</u>	<u>4,003,503</u>
Increase(decrease) in net assets	4,033,891	(81,657)
Net assets at beginning of year	16,845,644	16,927,301
Net assets at end of year	<u>\$ 20,879,535</u>	<u>\$ 16,845,644</u>

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

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

- Program revenues of \$6,145,720 equaled 112.3% of government expenses of \$5,472,501. This large amount of program revenues was generated from street and drainage infrastructure contributions of \$4,152,236 from municipalities and subdivision developers. General revenues (\$3,360,672) provided support and coverage for 61.4% of the government expenses.
- Over one-third of the expenses are judicial/police (\$2,005,433), while this category provided about 4.9% of the total revenues of \$9,506,392. The majority of the expenses in this category were incurred for salary and benefits (\$1,606,107) and materials and supplies (\$132,766).
- The next largest category of expenses is streets (\$1,243,942) at 22.7%. The more significant expenses in this category are related to salary and benefits (\$378,928), maintenance and repairs (\$70,682), and depreciation (\$686,823).
- Public safety expenses amounted to \$934,748, an increase of \$879,470 over the prior year. This increase is for special services contracts awarded to various contractors for debris monitoring, debris hauling, and landfill disposal as a result of Hurricane Ike in September, 2008.
- For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

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

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,942,166, an increase \$244,470 in comparison with the prior year. Approximately 85% of this amount (\$1,656,126) is unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for future budget requirements (\$264,544), library expansion (\$18,250), park development (\$280), encumbrances (\$2,851), and prepaid items (\$115).

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

The fund balance of the City's General Fund increased by \$244,470 during the current fiscal year. Key factors are as follows:

- \$48,164 in expenditures over revenues – revenues were \$4,504,208 (117.1%) more than in the prior fiscal year and expenditures increased by \$4,566,759 (119.1%). Property, sales tax, franchise and contract fees, and municipal fines and cash bond forfeits generated slightly more income than the prior year. Intergovernmental revenues attributed to the large increase in revenues during the current fiscal year. This increase was a result of \$4,152,236 in contributions received from municipalities in the form of streets and drainage infrastructure. Other revenues also generated an additional \$146,000 in the form of street contributions from developers within the City. Expenditures related to general government administration, community services, judicial/police, fire marshal, library, and principal and interest payments on debt increased. Expenditure decreases were noted in streets, parks, and the community center. Capital outlay expense increased \$4,261,815 from the prior year. The majority of this increase (\$4,298,236) was a contribution of street and drainage infrastructure from municipalities and developers within the City. The significant increase in capital outlay expense was offset by an equal amount of intergovernmental revenues and other revenues as mentioned above.
- \$292,634 in other financing sources – this resulted from a capital lease for three 2008 Ford Police Interceptors with mobile video systems, one 2008 U13 Ford Expedition, one dash mount mobile radio, two New Holland tractors with boom level control mowers, and OSSI computer – aided dispatch software license.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

- A net increase in the revenue budget of \$165,753. Some of the significant budget increases resulted from sales tax (\$42,000), other revenues (\$19,465), and funding for the Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program (\$119,312). Intergovernmental revenues were decreased (\$15,024).
- The other financial sources comprised of capital lease contracts and appropriated fund balance were also increased by \$313,314.
- A net increase in the budget for expenditures of \$478,887. Some of the significant increases and decreases can be summarized as follows:

CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008

Judicial/Police – an increase of \$31,040. Most of this increase was the result of additional funds needed for fuel, utilities, maintenance, and supplies.

Library – an increase of \$10,876. This increase was to cover increased electrical costs and operational materials and supplies.

Parks – an increase of \$13,970. This increase was to cover additional costs related to the walking trail, utilities, fuel, and equipment maintenance.

Capital expenditures – an increase of \$315,945. This increase was a result of a new pavilion at the park, air condition unit at the community center, forensic computer, file server, financing of police vehicles with video cameras and radios, computer software and hardware, and two new tractors with slope mowers.

Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program – an increase of \$125,000. This increase was to recognize Santa Fe Independent School District In-Kind services and Kilroy Foundation cash match and In-Kind services

General government administration – a decrease of \$10,630. This amount was a net of increases and decreases in various expense accounts. Council travel, accounting services, and maintenance and utilities increased. Professional services, liability insurance, unemployment taxes, and personnel services decreased.

Community center - a decrease of \$5,156. Building maintenance and repairs expense was transferred to capital expenditures.

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

- Actual General Fund Revenues of \$8,352,157 exceeded budgeted revenues of \$3,854,620 by \$4,497,537. Actual revenues exceeding the final budget were generated by additional franchise and contract fees (\$18,940), sales tax (\$30,333), and municipal fines and cash bond forfeits (\$96,393). Other revenues also exceeded the final budget by \$156,821. The majority of the other revenues (\$146,000) was in the form of street contributions from developers within the City. Intergovernmental revenues made up the majority of the actual revenues over the budgeted amounts. Contributions of \$4,152,236, in the form of streets and drainage infrastructure, were received from municipalities. The other financing source of appropriated fund balance was not needed, and therefore the budget exceeded the actual amount by \$239,245.
- Actual expenditures of \$8,400,321 were more than the budgeted expenditures of \$4,386,499 by \$4,013,822. Actual expenditures were less than the final budget in the police/judicial

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

department (\$113,660) and street department (\$61,908). But actual expenditures were more than the final budget in the Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program (\$46,398) and capital expenditures (\$4,215,652). The large amount of actual capital expenditures exceeded the budget as a result of contributions of street and drainage infrastructure from municipalities and developers within the City.

- Final budgeted amounts projected no increase or decrease in fund balance. However, the actual net change in the fund balance was an increase of \$244,470.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City of Santa Fe's investment in capital assets for its governmental activities as of September 30, 2008, amounts to \$19,402,321, net of accumulated depreciation. This investment in capital assets includes land, buildings, building improvements, computers, equipment, furniture and fixtures, infrastructure, radios, and vehicles.

Table 3 - Capital Assets

	Governmental Activities	
	2008	2007
Land	\$ 250,048	\$ 250,048
Buildings	681,068	681,068
Building improvements	222,912	222,912
Computers	265,699	165,776
Equipment	1,097,168	955,673
Furniture and fixtures	11,164	11,164
Improvements (other than buildings)	69,462	48,705
Infrastructure	26,279,667	23,820,488
Infrastructure improvements	2,771,750	859,862
Radios	40,751	35,156
Vehicles	688,843	598,275
Total Capital Assets	32,378,532	27,649,127
Less: Accumulated depreciation	(12,976,211)	(12,150,676)
Total capital assets, net of depreciation	<u>\$ 19,402,321</u>	<u>\$ 15,498,451</u>

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

- The General Fund purchased capital assets during the 2007-2008 fiscal year amounting to \$436,566. The more significant purchases were infrastructure street improvements (\$78,227),

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

park pavilion (\$20,756), air condition unit at the community center (\$5,157), computer equipment and upgrades (\$44,653), police department motor vehicles with mobile video systems and radios (\$108,184), OSSI computer-aided dispatch software license (\$57,771), and two New Holland tractors with Alamo boom lever control mowers (\$121,818).

- Infrastructure contributions of \$4,298,236 were received by the City of Santa Fe. The City passed Ordinances No. 05-2008, 06-2008, and 07-2008 on March 27, 2008. These ordinances annexed into the corporate limits of the City areas comprising, more or less, of 1,859.6 acres or 2,670.235 square miles. Upon annexation, the roads and streets, currently owned by the County of Galveston, became property of the City. The fair value of these roads and streets contributed to the City by County was \$2,318,575. The City also received contributions of drainage infrastructure of \$1,833,661 from the State of Texas. Subdivision developers contributed an additional \$146,000 of street improvements to the City of Santa Fe.

Additional information on the City of Santa Fe's capital assets can be found in Note 4 on pages 37 through 38 of this report.

Long-Term Debt

The City's outstanding long-term liabilities, which are comprised of capital lease obligations and compensated absences, totaled \$773,203 at September 30, 2008. The total amount was in governmental activities. The capital lease obligations increased \$83,292 in the year ending September 30, 2008. This was a net result of new financing of \$292,634 and principal debt payments of \$209,342. The compensated absences had a net increase of \$49,484.

Table 4 -Long-Term Debt

	Governmental Activities	
	2008	2007
Capital leases	\$ 352,958	\$ 269,667
Compensated absences	420,245	370,761
Total long-term debt	<u>\$ 773,203</u>	<u>\$ 640,428</u>

Additional information on the City of Santa Fe's long-term debt can be found in Note 5 on pages 38 through 39 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

**CITY OF SANTA FE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2008**

In considering the budget for the 2008/09 fiscal year, the City Council and management considered the following factors:

- The City's largest source of revenue in the general fund is sales tax. The city projects a marginal increase from the prior year budget of \$1,275,000 to \$1,380,000, or 8 percent.
- The City's second largest source of revenue in the general fund is the ad valorem taxes. The City's 2008 tax rate increased \$0.0122 cents from \$0.2992 to \$0.3114 per \$100 valuation, and consists entirely of maintenance and operations (M&O) with no debt service (I&S). The taxable value for 2008 is \$441,829,950, an increase of \$8,046,050 from last year's value of \$433,783,900. The value of new improvements and new personal property located in the City is \$6,887,141 constituting 85 percent of the increase in taxable value. The City Council established a tax freeze on the property tax amount imposed on the residence homesteads of disabled individuals and individuals age 65 and older. The value of properties under the tax ceiling is \$67,393,070 or 15 percent of the taxable value, as compared to last year's value of \$65,499,123, or 15 percent of the taxable value.
- Other significant general revenues are building and permit fees and municipal court fines. The budget projection for license and permit fees for 2008/09 is steady at \$137,400, consisting mainly of \$115,000 in development-related fees as compared to \$97,000 from development fees projected in fiscal year 2007/08. Municipal court fine budgeted revenues are expected to increase by about 25 percent, from \$220,000 to \$275,000 projected for the new fiscal year. Efforts to improve long-term collections are proving successful through the use of technology and programs designed to increase the collection rate.
- As current interest rates remain flat, budgeted interest earnings are projected to remain the same as fiscal year 2007/08 at \$75,000.
- For the 2008/09 fiscal year, the City appropriated \$264,544 of the available fund balance for general fund spending. This leaves \$1,488,828 in estimated reserves, which is about 34.9 percent of general fund appropriations. The City's policy is to maintain general fund reserves of a least 3 months operating expenses, estimated to be \$1,064,675 for the 2008/2009 fiscal year, or 25 percent of operating expenses.
- If all budget estimates are realized, the total general fund unreserved fund balance is projected to be \$1,488,828 at September 30, 2009, an increase from last year's projection of \$1,341,299.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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CITY OF SANTA FE, TEXAS
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2008

STATEMENT 1

	Primary Government		Component Unit - Santa Fe Economic Development Corporation
	Governmental		
	Activities	Total	
ASSETS			
Cash and cash equivalents	\$ 613,628	\$ 613,628	\$ 1,611
Investments:			
Tex Pool	579,144	579,144	1,236,757
Logic	584,489	584,489	-
Receivables, net where applicable of allowance for uncollectibles:			
Property taxes, net	128,575	128,575	-
Municipal court assessments, net	69,396	69,396	-
Other	1,507,966	1,507,966	75,049
Prepaid expenses	115	115	-
Restricted assets:			
Cash and cash equivalents:			
Library expansion	18,250	18,250	-
Park development	280	280	-
Special purpose funds	95,835	95,835	-
Refundable deposits	117,300	117,300	-
Capital assets:			
Nondepreciable	250,048	250,048	-
Depreciable, net of accumulated depreciation	19,152,273	19,152,273	-
Construction in progress	-	-	-
Total Assets	23,117,299	23,117,299	1,313,417
LIABILITIES			
Accounts payable	1,163,093	1,163,093	-
Accrued salaries	53,371	53,371	-
Accrued payroll taxes	7,029	7,029	-
Refundable deposits	117,300	117,300	-
Deferred revenues:			
PG&E Pipeline settlement	23,375	23,375	-
Special purpose funds	95,835	95,835	-
Other	4,557	4,557	-
Noncurrent liabilities:			
Due within one year	347,336	347,336	174,056
Due in more than one year	425,868	425,868	645,308
Total Liabilities	2,237,764	2,237,764	819,364
NET ASSETS			
Invested in capital assets, net of related debt	\$ 19,049,362	\$ 19,049,362	\$ -
Restricted for:			
Future budget requirements	264,544	264,544	783,333
Library expansion	18,250	18,250	-
Park development	280	280	-
Home Investment Partnerships Program	89	89	-
Infrastructure improvements	-	-	(289,280)
Unrestricted	1,547,010	1,547,010	-
Total Net Assets (Deficit)	\$ 20,879,535	\$ 20,879,535	\$ 494,053

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government administration	\$ 455,056	\$ 15,150	\$ 1,323	\$ -
Tax	13,060	-	-	-
Community services	249,171	129,103	-	-
Judicial/Police	2,005,433	340,962	114,538	6,145
Fire Marshal	10,315	-	-	-
Public safety	934,748	-	880,120	-
Library	171,038	2,413	5,868	-
Streets	1,243,942	1,036	58,768	4,298,236
Parks	80,688	-	5,614	10,000
Community center	24,690	9,314	-	-
Interest on long term debt	11,542	-	-	-
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program	271,398	-	265,710	-
HOME Investment Partnerships Program	1,420	-	1,420	-
Total Primary Government				
Governmental Activities	<u>\$ 5,472,501</u>	<u>\$ 497,978</u>	<u>\$ 1,333,361</u>	<u>\$ 4,314,381</u>
Component Unit				
Santa Fe Economic Development Corporation	\$ 87,963	\$ -	\$ -	\$ -
Total Component Unit				
Governmental Activities	<u>\$ 87,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:

Taxes:

Property taxes, levied for general purposes

Sales tax

Franchise tax and contract fees

Restricted interest earnings

Unrestricted interest and investment earnings

Penalties and interest on property taxes

Gain (Loss) on sale of capital assets

Other revenues

Special Item:

Contribution to a Political Subdivision - Galveston County Water

Control and Improvement District No. 8 - water and sewer infrastructure improvements (See Notes 12-C and 12-G)

Total general revenues and special item

Change in net assets

Net assets at beginning of year

Net assets at end of year

See accompanying notes to basic financial statements.

<u>Net (Expense) Revenue and Changes in Net Assets</u>			
		<u>Component Unit</u>	
<u>Primary Government</u>		<u>Santa Fe</u>	
<u>Governmental</u>		<u>Economic</u>	
<u>Activities</u>	<u>Total</u>	<u>Development</u>	
		<u>Corporation</u>	
\$ (438,583)	\$ (438,583)	\$ -	
(13,060)	(13,060)	-	
(120,068)	(120,068)	-	
(1,543,788)	(1,543,788)	-	
(10,315)	(10,315)	-	
(54,628)	(54,628)	-	
(162,757)	(162,757)	-	
3,114,098	3,114,098	-	
(65,074)	(65,074)	-	
(15,376)	(15,376)	-	
(11,542)	(11,542)	-	
(5,688)	(5,688)	-	
-	-	-	
673,219	673,219	-	
-	-	(87,963)	
-	-	(87,963)	
1,265,457	1,265,457	-	
1,347,333	1,347,333	449,111	
636,940	636,940	-	
94	94	-	
72,158	72,158	35,280	
25,900	25,900	-	
(3,094)	(3,094)	-	
15,884	15,884	-	
-	-	-	
-	-	-	
-	-	(75,640)	
3,360,672	3,360,672	408,751	
4,033,891	4,033,891	320,788	
16,845,644	16,845,644	173,265	
\$ 20,879,535	\$ 20,879,535	\$ 494,053	

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	Special Revenue Funds		
	General Fund	Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program	Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program
ASSETS			
Cash and cash equivalents	\$ 613,539	\$ -	\$ 89
Investments:			
Tex Pool	579,144	-	-
Logic	584,489	-	-
Receivables, net where applicable of allowance for uncollectibles:			
Property taxes, net	128,575	-	-
Municipal court assessments, net	69,396	-	-
Due from other governments	1,097,381	-	-
Other	410,585	-	-
Prepaid items	115	-	-
Restricted assets:			
Cash and cash equivalents:			
Library expansion	18,250	-	-
Park development	280	-	-
Special purpose funds	95,835	-	-
Refundable deposits	117,300	-	-
Total Assets	\$ 3,714,889	\$ -	\$ 89
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 1,163,093	\$ -	\$ -
Accrued salaries	53,371	-	-
Accrued payroll taxes	7,029	-	-
Refundable deposits	117,300	-	-
Deferred revenues:			
Property taxes	120,985	-	-
Municipal court assessments	47,222	-	-
PG&E Pipeline settlement	23,375	-	-
Special purpose funds	95,835	-	-
Other	4,556	-	-
Compensated absences payable	140,046	-	-
Total liabilities	1,772,812	-	-
Fund Balances			
Reserved for:			
Future budget requirements	264,544	-	-
Library expansion	18,250	-	-
Park development	280	-	-
Encumbrances	2,851	-	-
Prepaid items	115	-	-
Unreserved, undesignated, reported in:			
General Fund	1,656,037	-	-
Special Revenue Fund	-	-	89
Total fund balances	1,942,077	-	89
Total Liabilities and Fund Balances	\$ 3,714,889	\$ -	\$ 89

See accompanying notes to basic financial statements.

Special Revenue Funds

Texas Department of Public Safety's Division of Emergency Management; Federal Emergency Management Public Assistance Grant (FEMA); Hurricane Ike	Office of Rural Community Affairs (ORCA); Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	Office of Attorney General (OAG); Internet Crimes Against Children Program	Texas Department of Transportation; Selective Traffic Enforcement Program (STEP)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	613,628
-	-	-	-	579,144
-	-	-	-	584,489
-	-	-	-	128,575
-	-	-	-	69,396
-	-	-	-	1,097,381
-	-	-	-	410,585
-	-	-	-	115
-	-	-	-	18,250
-	-	-	-	280
-	-	-	-	95,835
-	-	-	-	117,300
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,714,978</u>
\$ -	\$ -	\$ -	\$ -	1,163,093
-	-	-	-	53,371
-	-	-	-	7,029
-	-	-	-	117,300
-	-	-	-	120,985
-	-	-	-	47,222
-	-	-	-	23,375
-	-	-	-	95,835
-	-	-	-	4,556
-	-	-	-	140,046
-	-	-	-	1,772,812
-	-	-	-	264,544
-	-	-	-	18,250
-	-	-	-	280
-	-	-	-	2,851
-	-	-	-	115
-	-	-	-	1,656,037
-	-	-	-	89
-	-	-	-	1,942,166
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,714,978</u>

See accompanying notes to basic financial statements.

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CITY OF SANTA FE, TEXAS
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 SEPTEMBER 30, 2008

STATEMENT 4

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,942,166

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

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

Capital assets	\$ 32,378,533	
Less: Accumulated depreciation	<u>(12,976,212)</u>	19,402,321

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

168,207

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

Capital leases payable	(352,959)	
Compensated absences payable	<u>(280,200)</u>	<u>(633,159)</u>

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

\$ 20,879,535

CITY OF SANTA FE, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue Funds		
	General Fund	Substance Abuse and Mental Mental Health Services (SAMHSA); Drug Free Communities Support Program	Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program
Revenues			
Taxes:			
Property	\$ 1,254,146	\$ -	-
Franchise and contract fees	636,940	-	-
Sales tax	898,222	-	-
Sales tax - property tax reduction	449,111	-	-
Licenses and permits	129,103	-	-
Municipal fines and cash bond forfeits	331,393	-	-
Intergovernmental revenues	4,193,375	100,000	-
Interest income	72,252	-	-
Penalty and interest, property taxes	25,899	-	-
Other revenues	194,586	-	-
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program	165,710	-	-
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program	1,420	-	-
Total revenues	<u>8,352,157</u>	<u>100,000</u>	<u>-</u>
Expenditures			
Current:			
General government administration	433,047	-	-
Tax	13,060	-	-
Community services	231,186	-	-
Judicial/Police	1,788,749	-	-
Fire Marshal	9,707	-	-
Public Safety	54,628	-	-
Library	162,831	-	-
Streets	489,962	-	-
Parks	75,792	-	-
Community center	19,000	-	-
Capital expenditures	4,728,657	-	-
Debt service:			
Principal retirement	209,342	-	-
Interest	11,542	-	-

(Continued)

See accompanying notes to basic financial statements.

Special Revenue Funds

Texas Department of Public Safety's Division of Emergency Management; Federal Emergency Management Public Assistance Grant (FEMA); Hurricane Ike	Office of Rural Community Affairs; (ORCA); Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	Office of Attorney General (OAG); Internet Crimes Against Children Program	Texas Department of Transportation; Selective Traffic Enforcement Program (STEP)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	1,254,146
-	-	-	-	636,940
-	-	-	-	898,222
-	-	-	-	449,111
-	-	-	-	129,103
-	-	-	-	331,393
1,016,875	-	9,500	10,310	5,330,060
-	-	-	-	72,252
-	-	-	-	25,899
-	-	-	-	194,586
-	-	-	-	165,710
-	-	-	-	1,420
<u>1,016,875</u>	<u>-</u>	<u>9,500</u>	<u>10,310</u>	<u>9,488,842</u>
1,323	-	-	-	434,370
-	-	-	-	13,060
-	-	-	-	231,186
76,550	-	3,355	10,310	1,878,964
-	-	-	-	9,707
880,120	-	-	-	934,748
-	-	-	-	162,831
58,768	-	-	-	548,730
114	-	-	-	75,906
-	-	-	-	19,000
-	-	6,145	-	4,734,802
-	-	-	-	209,342
-	-	-	-	11,542

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue Funds		
	General Fund	Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program	Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program -			
Personnel costs	\$ 9,303	\$ 36,000	\$ -
Fringe benefits	560	3,935	-
Travel	-	3,431	-
Supplies	2,708	3,739	-
Consultants/Contracts	4,200	47,680	-
Equipment	-	3,745	-
Other	154,627	1,470	-
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program			
Other costs	1,420	-	-
Total expenditures	<u>8,400,321</u>	<u>100,000</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(48,164)</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):			
Transfer in	1,136,685	100,000	-
Transfer out	(1,136,685)	(100,000)	-
Proceeds from sale of capital assets	-	-	-
Capital lease contracts	292,634	-	-
Total other financing sources (uses)	<u>292,634</u>	<u>-</u>	<u>-</u>
Net change in fund balances	244,470	-	-
Fund balances at beginning of year	<u>1,697,607</u>	<u>-</u>	<u>89</u>
Fund balances at end of year	<u>\$ 1,942,077</u>	<u>\$ -</u>	<u>\$ 89</u>

See accompanying notes to basic financial statements.

Special Revenue Funds				
Texas Department of Public Safety's Division of Emergency Management; Federal Emergency Management Public Assistance Grant (FEMA); Hurricane Ike	Office of Rural Community Affairs; (ORCA); Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program	Office of Attorney General (OAG); Internet Crimes Against Children Program	Texas Department of Transportation; Selective Traffic Enforcement Program (STEP)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 45,303
-	-	-	-	4,495
-	-	-	-	3,431
-	-	-	-	6,447
-	-	-	-	51,880
-	-	-	-	3,745
-	-	-	-	156,097
-	-	-	-	1,420
1,016,875	-	9,500	10,310	9,537,006
-	-	-	-	(48,164)
1,016,875	-	9,500	10,310	2,273,370
(1,016,875)	-	(9,500)	(10,310)	(2,273,370)
-	-	-	-	-
-	-	-	-	292,634
-	-	-	-	292,634
-	-	-	-	244,470
-	-	-	-	1,697,696
\$ -	\$ -	\$ -	\$ -	\$ 1,942,166

See accompanying notes to basic financial statements.

CITY OF SANTA FE, TEXAS
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

STATEMENT 6

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 244,470
<p>Amounts reported for governmental activities in the Statement of Activities (Statement 2) are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Add: Capital outlay	\$ 4,734,802
Deduct: Depreciation expense	<u>(827,837)</u> 3,906,965
<p>Because some revenues will not be collected for several months after the City's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) by these amounts this year:</p>	
Property taxes	11,312
Municipal court assessments	<u>9,332</u> 20,644
<p>Governmental funds report the issuance of debt as an "other financing source." In the governmental activities, however, the issuance of debt is reflected as a liability instead.</p>	
	(292,634)
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.</p>	
	209,342
<p>Expenses for compensated absences, reported in the Statement of Activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>	
	(51,802)
<p>The Statement of Activities reports a gain or loss on sale of capital assets based on the proceeds received and the net book value of the assets at the time of sale. The loss on disposal is calculated as follows:</p>	
Cost of assets disposed	(5,396)
Accumulated depreciation of assets disposed	<u>2,302</u> (3,094)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>4,033,891</u>

See accompanying notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the City of Santa Fe, Texas have been prepared in accordance with generally accepted accounting principles accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (“FASB”) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

A. Reporting Entity

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

Based on the aforementioned criteria, the City of Santa Fe Section 4B Economic Development Corporation is the only component unit that should be included in the City’s basic financial statements. The Corporation will be discretely presented and the financial statements are formatted to allow the user to clearly distinguish between the primary government and its component unit. Note disclosure related to the discretely presented component unit is presented as Note 13 of the Notes to Basic Financial Statements. The discretely presented component unit has a September 30 year end and only has governmental activities.

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

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

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

B. Basic Financial Statements

General

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

Government-Wide Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

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

Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program - this special revenue fund is used to reduce substance abuse among youth; help community coalitions strengthen collaboration; enhance intergovernmental communication and coordination; enable communities to conduct data – driven research – based prevention planning; and provide communities with technical assistance, guidance, and financial support.

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

Federal Emergency Management (FEMA) Public Assistance Grant; Hurricane Ike – this special revenue fund is used to provide disaster relief associated with Hurricane Ike.

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

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Internet Crimes Against Children Program – this special revenue fund will provide forensic computer equipment and training to assist the police department in responding to online enticement and child pornography cases.

Selective Traffic Enforcement Program (STEP) – this special revenue fund will provide funds for overtime activities and travel for officers to work strictly traffic enforcement in designated areas. This will result in an increase in effective enforcement and adjudication of traffic safety-related laws to reduce fatal and serious injury crashes.

D. Cash and Cash Equivalents

The City of Santa Fe’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

E. Investments

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

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

F. Receivables

Receivables at September 30, 2008 for the City’s government-wide and governmental fund financial statements, including the applicable allowances for uncollectible amounts, consist of the following:

	<u>Receivables</u>	<u>Less: Allowance for Uncollectibles</u>	<u>Receivables - Net of Allowance for Uncollectibles</u>
Property taxes	\$ 153,082	\$ 24,507	\$ 128,575
Municipal court assessments	693,959	624,563	69,396
Due from other governments - specific program grants	1,097,381	-	1,097,381
Other:			
Franchise and contract fees	91,825	-	91,825
Sales tax	300,197	-	300,197
Miscellaneous	18,563	-	18,563
Total	<u>\$ 2,355,007</u>	<u>\$ 649,070</u>	<u>\$ 1,705,937</u>

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Reported prepaid items at year-end are offset by a fund balance reserve account, since they do not represent expendable financial resources, even though they are a component of total assets.

CITY OF SANTA FE, TEXAS
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H. Restricted Assets – Cash

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

I. Capital Assets

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

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

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

J. Accounts Payable

Accounts payable at September 30, 2008 in the government-wide and governmental fund financial statements are 92% vendors, 4% employer and employee retirement contributions, and 4% municipal court state costs collected and due the State Treasurer.

K. 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.

L. Compensated Absences

Annual vacation leave, according to a graduated scale based on years of employment is credited to employees as of January 1 annually. While it is the intent of the City that all earned vacation will be taken within a twelve month period by the employee, unused vacation hours can be deferred to the next 12 month period subject to approval by appropriate management. If an employee terminates after January 1 but before their anniversary date, unearned vacation may be owed to the City and is subject to deduction from the employee's final check. If an employee terminates after January 1 and after their anniversary date, additional vacation may be owed to the terminating employee.

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. 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. 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. 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.

To the extent that the City's obligation is attributable to employees' services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, vacation and compensatory time benefits are accrued as liabilities (on a government-wide basis) as employees earn the benefits. On a fund financial statement basis for the governmental funds, only matured liabilities and liabilities expected to be liquidated with current assets are accrued. Sick leave benefits are accrued as a liability as employees earn the benefits, but only to the extent that it is probable that the City will compensate the employees through cash payments conditioned on the employees' termination or retirement. All compensated absences are liquidated through the General Fund.

M. Long-Term Obligations

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

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

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

N. Equity Classifications

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

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

In the Fund financial statements, reserved fund balances are not available for appropriations because the City will use these resources within the next budgetary period or they have been legally segregated for specific purposes.

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Unreserved/Designated fund balances indicate that portion of fund balance for which the City has tentative plans than can be increased, reduced, or eliminated by action of City Council or Management. Unreserved/Undesignated fund balances are that portion of fund balance that is available for appropriation and expenditure in future periods, or if a deficit, for which future funding will be required.

O. Estimates

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Policy

The City's Investment Policy specifies that depository services must be approved by City Council. The City Manager and City Secretary/Treasurer are designated as investment officers of the City and are responsible for investment decisions and activities. All deposits and investments of City funds shall be secured by pledged collateral. The collateralization level will be 102 per cent of market value of principal and accrued interest on the deposits or investments less an amount insured by FDIC. In accordance with its investment policy, the City manages its exposure to declines in fair market values by not investing in instruments that have a maturity of longer than one year. As of September 30, 2008, all of the City's investments were invested for a period of one year or less. It is the City's policy to limit its investments to investment types with an investment quality rating not less than AAA by a nationally recognized rating agency. Investment pools must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. The investments of the City are in compliance with the Council's investment policy. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments and deposits were complied with during the year. Investments at year end are representative of the types of investments maintained by the City during the year.

Deposits

Deposits were with the contracted depository bank in interest bearing accounts which were secured at the balance sheet date by FDIC coverage and pledged by U. S. Government securities. The pledge agreement requires that the City have a first and prior lien on the securities to the extend of its funds on deposit and that none of the securities can be pledged or subjected to any lien other than that of the City. The City's deposits are categorized below to indicate the level of risk assumed by the City as of September 30, 2008:

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

For deposits, *custodial credit risks* is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of City cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the financial institutions holding the assets. By law, financial institutions must collateralize all public deposits.

At year-end, the City's carrying amount of deposits was \$844,893 and the bank balance was \$876,773. Of this bank balance, \$100,000 is covered by federal depository insurance. The remaining balance \$776,773 was collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the City's name (Risk Category 3).

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

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	<u>Carrying Amount</u>
Demand and time deposits	\$ 844,893
Petty Cash	<u>400</u>
Total cash and cash equivalents	845,293
Less: restricted cash and cash equivalents	<u>(231,665)</u>
Unrestricted cash and cash equivalents	<u>\$ 613,628</u>

Investments

TexPool – The City is a participant in a Texas Local Government Investment Pool (*TexPool*) that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two Acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller of Public Accounts exercises oversight responsibility over *TexPool*. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in *TexPool* and other persons who do not have a business relationship with *TexPool*. The Advisory Board members review the investment policy and management fee structure. Finally, *TexPool* is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review. In addition to its annual review by an independent auditor, *TexPool* is subject to review by the State Auditor and the Internal Auditor of the Comptroller’s Office. Results of these annual reviews may be obtained from *TexPool* Participant Services, Lehman Brothers, 600 Travis Street, Suite 7200, Houston, Texas 77002.

The City of Santa Fe had \$579,144 invested in *TexPool* as of September 30, 2008, at a 3.2323% average annual rate of return. *TexPool*’s portfolio is managed by Lehman Brothers, Inc. and Federated Investors, Inc. (“Lehman and Federated”), and the assets are safekept in a separate custodial account at State Street Bank in the name of *TexPool*. Its portfolio is made up of the following:

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

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

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

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. To minimize credit risks, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies, and instrumentalities; repurchase agreements; no-load AAAm money market mutual funds registered with the Securities and Exchange Commission, and securities lending program.

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. TexPool's portfolio has low interest rate risk due to restrictions on weighted average maturity and maximum maturity of any one investment. TexPool's investment manager will maintain the weighted average maturity of the portfolio at sixty (60) days or less, no fixed rate security will exceed 397 days in maturity, and no variable rate note will exceed 24 months in maturity. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$0.995 or rises above \$1.005. These limitations are designed to minimize interest rate risk.

LOGIC – The City is a participant in a Local Government Investment Cooperative (LOGIC) that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Cooperative's governing body is a five member Board of Directors in which two are advisory board members. The Cooperative offers various investment alternatives for Texas Government Entities. Currently, the Board has authorized one portfolio, "LOGIC I," which is available to participants. The City of Santa Fe participates in the LOGIC I Portfolio which seeks preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. In order to comply with the Public Funds Investment Act, all portfolios will maintain a AAA or equivalent rating from at least one nationally recognized rating agency. The Logic Portfolio has been assigned a rating of AAAm by Standard & Poor's. An explanation of the significance of such ratings may be obtained from Standard & Poor's, 1221 Avenue of the Americas, New York, New York 10041.

The City of Santa Fe had \$584,489 invested in LOGIC I as of September 30, 2008, at a 3.4976% average annual rate of return. The LOGIC I Portfolio is comprised of the following eligible investments:

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

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The Board has entered into a contract with First Southwest Asset Management, Inc. and JP Morgan Asset Management, Inc. to serve as Co-Administrators of the Cooperative. They will provide administrative, investment management, participant services, fund accounting, custodial services, and marketing services for the Cooperative. JP Morgan Chase Bank is the custodian for the Cooperation.

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

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

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

Interest rate risk is the potential for a decline in market value due to rising interest rates. The Logic I Portfolio presents little interest rate risk. The effective dollar-weighted average portfolio maturity of the portfolio is 90 days or less (or fewer days if required to maintain its rating), and no instrument may have a term of more than 13 months. The Board has determined, in good faith, that it is the best interest of the portfolio to maintain a stable net asset value of \$1.00 per unit. Investments in the portfolio are neither insured nor guaranteed by the U.S. Government and there can be no assurance that the portfolio will maintain a stable net asset value of \$1.00. Policies have been established to stabilize, to the extent reasonable possible, the net asset value per unit of \$1.00.

NOTE 3 – PROPERTY TAXES

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

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

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

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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	Beginning Balance October 1	Increases	Decreases	Ending Balance September 30
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$ 250,048	\$ -	\$ -	\$ 250,048
Total capital assets not being depreciated	<u>250,048</u>	<u>-</u>	<u>-</u>	<u>250,048</u>
<i>Capital assets being depreciated:</i>				
Buildings	681,068	-	-	681,068
Building improvements	222,912	-	-	222,912
Computers	165,776	99,923	-	265,699
Equipment	955,673	141,495	-	1,097,168
Furniture and fixtures	11,164	-	-	11,164
Improvements (other than buildings)	48,705	20,757	-	69,462
Infrastructure	23,820,488	2,464,575	5,396	26,279,667
Infrastructure improvements	859,862	1,911,888	-	2,771,750
Radios	35,155	5,596	-	40,751
Vehicles	598,275	90,568	-	688,843
Total capital assets being depreciated	<u>27,399,078</u>	<u>4,734,802</u>	<u>5,396</u>	<u>32,128,484</u>
<i>Less accumulated depreciation for:</i>				
Buildings	257,990	17,079	-	275,069
Building improvements	139,445	15,021	-	154,466
Computers	95,640	36,953	-	132,593
Equipment	536,960	92,988	-	629,948
Furniture and fixtures	7,497	810	-	8,307
Improvements (other than buildings)	10,028	3,478	-	13,506
Infrastructure	10,678,557	422,834	2,302	11,099,089
Infrastructure improvements	126,859	180,139	-	306,998
Radios	19,865	3,623	-	23,488
Vehicles	277,835	54,912	-	332,747
Total accumulated depreciation	<u>12,150,676</u>	<u>827,837</u>	<u>2,302</u>	<u>12,976,211</u>
Total capital assets being depreciated, net	<u>15,248,402</u>	<u>3,906,965</u>	<u>3,094</u>	<u>19,152,273</u>
Governmental activities capital assets, net	<u>\$ 15,498,450</u>	<u>\$ 3,906,965</u>	<u>\$ 3,094</u>	<u>\$ 19,402,321</u>

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

General government administration	\$	12,776
Community service		12,338
Police/Judicial		94,948
Library		9,421
Streets		686,823
Community center		5,690
Fire marshal		608
Parks		5,233
		<hr/>
Total depreciation expense - governmental activities	\$	<u>827,837</u>

NOTE 5 – LONG-TERM DEBT

The following is a summary of changes in long-term liabilities for the year ended September 30, 2008:

	<u>Beginning Balance October 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance September 30</u>	<u>Due Within One Year</u>
Governmental Activities					
Capital lease obligations	\$ 269,667	\$ 292,634	\$ 209,342	\$ 352,959	\$ 207,291
Compensated absences	<u>370,761</u>	<u>246,591</u>	<u>197,107</u>	<u>420,245</u>	<u>140,045</u>
Total Governmental Activities					
Long-term liabilities	<u>\$ 640,428</u>	<u>\$ 539,225</u>	<u>\$ 406,449</u>	<u>\$ 773,204</u>	<u>\$ 347,336</u>

Capital Lease Obligations:

- (1) One 2005 Gradall Telescopic Boom Excavator. Total purchase price of \$231,656, financed by Municipal Services Group, Inc., one annual payment of \$50,146, with no interest, and four annual payments of \$50,146, including interest at 4.12% through December 3, 2009. \$ 94,418
 - (2) Four 2007 Ford Police Interceptors with video cameras, 2006 Ford F750 Dump Truck, and Blue Prince 2.0 Community Software and Technical Support. Total purchase price of \$200,634, financed by Municipal Services Group Inc., one annual payment of \$69,810, with no interest, and two annual payments of \$69,810, including interest at 4.45% through October 23, 2008. 66,836
 - (3) Three 2008 Ford Police Interceptors with mobile video systems, one 2008 U13 Ford Expedition, one dash mount mobile radio, two New Holland tractors with boom lever control mowers, and OSSSI computer - aided dispatch software license. Total purchase price of \$292,634, financed by California First National Bank, one annual payment of \$100,928, with no interest, and two annual payments of \$100,928, including interest at 3.510% through January 1, 2010. 191,705
- Total capital lease obligations \$ 352,959

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

Vehicles	\$ 225,780	
Less: Accumulated depreciation	<u>31,029</u>	
Net vehicles		\$ 194,751
Equipment	361,494	
Less: Accumulated depreciation	<u>75,776</u>	
Net equipment		285,718
Computers	91,771	
Less: Accumulated depreciation	<u>22,662</u>	
Net computers		69,109
Radios	3,096	
Less: Accumulated depreciation	<u>206</u>	
Net radios		2,890
Capitalized leased assets, net		<u>\$ 552,468</u>

The following is a schedule of future minimum lease payments on the capital leases and the present value of the net minimum lease payments at September 30, 2008:

	<u>Governmental Activities</u> <u>Capital Leases</u>	
Year Ended September 30:		
2009	\$	220,884
2010		151,075
2011		-
2012		-
2013 and future		<u>-</u>
Total principal and interest		371,959
Less: Amount representing interest		<u>19,000</u>
Total future principal payments	\$	<u>352,959</u>

The capital lease obligation payments will be made from the General Fund.

Compensated absences:

The City's policy related to compensated absences is described in Note 1. As the above summary indicates, the long-term portion of this debt, amounting to \$280,200 for governmental activities at September 30, 2008, is expected to be paid in future years from future resources. The entire amount, current and long term, will be liquidated by the General Fund.

NOTE 6 – INTERFUND RECEIVABLES AND PAYABLES

In both the government-wide and governmental fund financial statements no interfund receivable or payable transactions occurred during the course of operations, and none existed as of September 30, 2008.

NOTE 7 – INTERFUND TRANSFERS

Interfund transfers are transactions between funds transferring funds out of one fund to support the operations of another fund. The transfers made during the year were made from unrestricted revenues collected in the General Fund to finance various grant program expenditures accounted for in the Special Revenue Fund. Upon receipt of reimbursements from the appropriate state or federal agencies, the Special Revenue Fund transferred the funds back to the General Fund.

Interfund transfers during the year ended September 30, 2008 were as follows:

Funds	Interfund	
	Transfers In	Transfers Out
General Fund	\$ 1,136,685	\$ 1,136,685
Special Revenue Fund	1,136,685	1,136,685
Total	<u>\$ 2,273,370</u>	<u>\$ 2,273,370</u>

NOTE 8 – RISK MANAGEMENT

During the normal course of business, the City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk-Pool. This pool is a risk-sharing pool providing insurance coverage to 2,638 Texas municipalities and other governmental units as of September 30, 2008. The risk pool is governed by a Board of Trustees which consists of 15 members, plus 3 ex-officio non-voting members, either elected or appointed in the manner specified per the TML bylaws. Each member of the Board must be either an employee or official of the governing body of an employee member of the Pool. The Board controls the operations of the risk pool and has various powers and duties as specified per the bylaws. Audited financial information for each risk pool may be obtained from the Chief Financial Officer, Texas Municipal League Intergovernmental Risk Pool, P.O. Box 149194, Austin, Texas 78714-9194. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. During the year ended September 30, 2008, the City paid out of its General Fund net premiums of approximately \$47,067 for provisions of various liability, property, and casualty insurance. The City has various deductible amounts ranging from \$1,000 to \$10,000 on various policies. TML will pay damages and claims subject to the limits of liability and stated deductible amounts per the approved declarations of coverage. Amounts over the stated limits of liability become the responsibility and risk of the City. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At year-end, the City did not have any significant probable claims.

The City also provides workers compensation insurance on its employees through TML. TML covers workers compensation claims up to the statutory limit. The City has no deductible for these claims. During the fiscal year ended September 30, 2008, the City contributed out of its General Fund premiums of approximately \$65,155 for workers compensation. The contributed amount is based on the City's estimated payroll applied to a classification rate determined by TML, times the City's experience modifier and fund discount. Workers compensation is subject to change when audited by TML. At year-end September 30, 2008, the City believed the amounts paid would not change significantly from the amounts recorded.

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

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

NOTE 9 – CONTINGENT LIABILITIES

Grants

The City receives financial assistance from federal, state, and local government agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the City of Santa Fe, Texas at September 30, 2008.

Litigation

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

While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

NOTE 10 – TEXAS MUNICIPAL RETIREMENT SYSTEM

Plan Description

The City provides pension benefits for all of its regular full-time employees and regular part-time employees who work at least 1,000 hours or more per year through a non-traditional, joint contributor, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 827 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained upon written request from the TMRS Board of Trustees at P.O. Box 149153, Austin, Texas, 78714-9153.

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

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

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Contributions

The City of Santa Fe has elected the annually determined contributions rate (ADCR). Under the state law governing TMRS, the actuary annually determines the City contributions rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2007 valuation is effective for rates beginning January, 2009). The City contributed using the actuarially determined rate of 11.26% for the months of the accounting year in 2007 and 11.72% for the months in the accounting year 2008. The contribution rate payable by the employee members for the calendar year 2008 is the rate of 7% as adopted by the City Council of the City of Santa Fe. For the calendar year 2007, the employees' contribution rate was 7%. The employee and the City of Santa Fe contribution rates may be changed by the City Council of the City of Santa Fe within options available in the Texas Municipal Retirement System.

Annual Pension Cost

For the City of Santa Fe accounting year ending September 30, 2008, the annual pension cost for the TMRS plan for its employees was \$274,908 and the actual contributions were \$274,908. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees. The December 31, 2007, actuarial valuation is the most recent valuation.

	Actuarial Valuation Information		
	12/31/05	12/31/06	12/31/07
Actuarial valuation date	12/31/05	12/31/06	12/31/07
Actuarial cost method	Unit Credit	Unit Credit	Projected Unit Credit
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll
Amortization period (in years)	25 years - open period	25 years - open period	30 years - closed period
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial assumptions:			
Investment rate of return	7.00%	7.00%	7.00%
Projected salary increases	None	None	Varies by age & service
Inflation at	3.50%	3.50%	3.00%
Cost-of-living adjustments	None	None	2.1% (3.0% CPI)

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projection Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also

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approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the city's unfunded actuarial accrued liability would have been \$1,597,249 and the funded ratio would have been 63.7%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 season is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009 actuarial valuation.

**Trend Information for the Retirement Plan for the Employees of
The City of Santa Fe, Texas**

Accounting Year Ending - September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1999	\$95,203	100.00%	\$0
2000	\$101,996	100.00%	\$0
2001	\$127,543	100.00%	\$0
2002	\$142,496	100.00%	\$0
2003	\$139,310	100.00%	\$0
2004	\$138,141	100.00%	\$0
2005	\$208,605	100.00%	\$0
2006	\$241,789	100.00%	\$0
2007	\$239,497	100.00%	\$0
2008	\$274,908	100.00%	\$0

Funded Status and Funding Progress

The following is funded status information for the City of Santa Fe as of December 31, 2007, the most recent actuarial valuation date:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] ÷ c)
<u>\$ 2,799,348</u>	<u>\$ 5,203,197</u>	<u>\$ 2,403,849</u>	<u>53.8%</u>	<u>\$ 2,124,360</u>	<u>113.2%</u>

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

NOTE 11 – SUBSEQUENT EVENTS

The City of Santa Fe passed Resolution #2009-29 at their regular Council meeting on October 9, 2008. This resolution authorized a line of credit for cash flow purposes in an amount not to exceed \$2,000,000. These borrowed funds will be used to pay expenses related to disaster recovery operations related to Hurricane Ike. Any amounts borrowed shall be repaid immediately upon receipt of funds reimbursed to the City by the Federal Emergency Management Public Assistance

Grant (FEMA). The City's approved depository bank has agreed to loan money to the City on a "line of credit" basis at an interest rate of approximately 3.89% on funds drawn.

NOTE 12 – NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STANDARDS

The Governmental Accounting Standards Board (GASB) has issued two statements not yet implemented by the City. The statements which might impact the City are as follows:

Statements

- No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans* issued April 2004, will be effective the City for the fiscal year ending September 30, 2009. This statement establishes uniform financial reporting standards for other post employment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.
- No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* issued June 2004, will be effective for the City for the fiscal year ending September 30, 2010. This statement established standards for the measurement, recognition, and display of (OPEB) expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

If these statements are determined to impact the City's financial statements, they will be implemented during the required year of implementation. The City's management has not yet determined the effect these statements will have on the City's financial statements.

NOTE 13 – DISCLOSURES RELATED TO DISCRETELY PRESENTED COMPONENT UNIT

A. – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Santa Fe Section 4B Economic Development Corporation have been prepared in accordance with generally accepted accounting principles accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

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

In an election held on May 5, 2001, the qualified voters of the City of Santa Fe approved Proposition 1 adopting an additional one-half of one percent (1/2 cent) sales and use tax. The additional sales and use tax will be held by an economic development corporation for specifically identified economic development projects as authorized by Section 4B of the Act. The sales and use tax becomes effective on October 1, 2001.

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

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

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

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

A – 1. Reporting Entity

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

A – 2. Basic Financial Statements

General

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

Government-Wide Statements:

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

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

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

Fund Financial Statements:

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

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

A – 4. Cash and Cash Equivalents

The Economic Development Corporation's cash and cash equivalents are comprised of demand deposits.

A – 5. Investments

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

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their respective agencies and instrumentalities. The Corporation has also adopted a resolution and a participation agreement that authorizes participation in investment pools.

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

A – 6. Receivables

The Corporation’s receivables in both the government-wide and governmental funds financial statements are made up of local sales tax due from the Comptroller of Public Accounts. No allowance for uncollectible has been set up since this amount has been received in the subsequent year.

A – 7. Capital Assets

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

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, bridges, drainage systems and similar items) are reported at cost or estimated historical cost, including all ancillary charges necessary to place the asset in its intended location and condition for use. Donated capital assets are reported at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest costs related to a capital asset or incurred during the construction phase of a capital asset is expensed and not capitalized.

Capital assets are defined for financial statement purposes as assets with an estimated economic useful life in excess of one year and meet specific capitalization thresholds. They are depreciated using the straight line method of depreciation. The following represents the useful life and capitalization threshold of the Corporation’s capital assets:

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

A – 8. Accounts Payable

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

A – 9. Long-Term Obligations

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

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of Economic Development Bonds, Series 2002.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

A – 10. Equity Classifications

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

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

In the Fund Financial Statements, reserves and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. The various reservations and designations are established by actions of the Board of Directors and Management and can be increased, reduced or eliminated by similar actions. As of September 30, 2008, fund balances are described below:

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

A – 11. Estimates

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

B. – DEPOSITS AND INVESTMENTS

Policy

The Economic Development Corporation follows the same investment policy that has been approved by the City of Santa Fe City Council. The City Manager and Secretary/Treasurer are designated as investment officers and are responsible for investment decisions and activities. All deposits and investments are required to be secured by pledged collateral. The collateralization level is 102 percent of market value of principal and accrued interest on the deposits or investments less an amount insured by FDIC.

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2008

Deposits

The Corporation's deposits were with the contracted depository bank in interest bearing accounts. The deposits are not commingled with the City of Santa Fe funds. All amounts are subject to various State statutes that exist to secure the safety of public funds. A pledge agreement exists that requires the Corporation to have a first and prior lien on the securities to the extent of its funds on deposit and that none of the securities can be pledged or subjected to any lien other than that of the Corporation. The Corporation's deposits are categorized below to indicate the level of risk assumed by the Corporation as of September 30, 2008:

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

For deposits, *custodial credit risk* is the risk that in the event of bank failure, the Corporation's deposits may not be returned to it. Protection of Corporation cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the financial institutions holding the assets. By law, financial institutions must collateralize all public deposits.

At year-end, the Corporation's carrying amount of deposits was \$1,611 (all considered cash and cash equivalents) and the bank balance was \$1,778. The total bank balance is covered by \$100,000 of federal depository insurance (Risk Category 1). The Corporation does not have any petty cash at the year-end.

Investments

TexPool – The Corporation is a participant in a Texas Local Government Investment Pool (TexPool), an external investment pool that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two Acts provide for the creation of public funds investments pools and permit eligible governmental entities to jointly invest their funds in authorized investments. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review. In addition to its annual review by an independent auditor, TexPool is subject to review by the State Auditor and the Internal Auditor of the Comptroller's Office. Results of these annual reviews may be obtained from TexPool Participant Services, Lehman Brothers, 600 Travis Street, Suite 7200, Houston, Texas, 77002.

The Economic Development Corporation had \$1,236,757 invested in TexPool as of September 30, 2008, at a 3.2323% average annual rate of return. TexPool's portfolio is managed by Lehman Brothers, Inc. and Federated Investors, Inc. ("Lehman and Federated"), and the assets are safekept in a separate custodial account at State Street Bank in the name of TexPool. Its portfolio is made up of the following:

1. Obligations of the United States Government, its agencies and instrumentalities with a maximum final maturity of 397 days for fixed rate securities and 24 months for variable rate notes.
2. Fully collateralized repurchase agreements or reverse repurchase agreements (a) with defined termination dates, (b) secured by obligations of the United States, its agencies, or its instrumentalities, including certain mortgage-backed securities, (c) that require purchased securities to be pledged to the investing entity, in the entity's name, and deposited at the time of investment with the investing entity or a third party, and (d) that are placed through primary government securities dealers, as defined by the Federal Reserve, or a financial institution doing business

in the State of Texas. The term of a reverse repurchase agreement may not exceed 90 days after the date of delivery. The maximum maturity on repurchase agreements may not exceed 181 days.

3. No-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. The money market mutual fund must maintain a dollar-weighted average stated maturity of 90 days or less and include in its investment objectives the maintenance of a stable net asset value of \$1.00.
4. Securities lending program that comply with various limitations.

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

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

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies, and instrumentalities; repurchase agreements; no-load AAAM money market mutual funds registered with the Securities and Exchange Commission, and securities lending programs.

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. TexPool's portfolio has low interest rate risk due to restrictions on weighted average maturity and maximum maturity of any one investment. TexPool's investment manager will maintain the weighted average maturity of the portfolio at sixty (60) days or less, no fixed rate security will exceed 397 days in maturity, and no variable rate note will exceed 24 months in maturity. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action in the net asset value of the portfolio falls below \$0.995 or rises above \$1.005. These limitations are designed to minimize interest rate risk.

C. – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

CITY OF SANTA FE, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 (CONTINUED)
 SEPTEMBER 30, 2008

	Beginning Balance October 1	Increases	Decreases	Ending Balance September 30
Governmental Activities				
<i>Capital assets not being depreciated:</i>				
Land - property owners easement contributions	\$ 9,910	\$ -	\$ 9,910	\$ -
Construction in progress	65,730	-	65,730	-
Total capital assets not being depreciated	75,640	-	75,640	-
<i>Capital assets being depreciated:</i>				
Less accumulated depreciation	-	-	-	-
Total capital assets being depreciated, net	-	-	-	-
Governmental activities capital assets, net	\$ 75,640	\$ -	\$ 75,640	\$ -

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

During the year ended September 30, 2008 no major construction project costs related to sewer and water infrastructure improvements were incurred. The Corporation has a commitment for these infrastructure improvements, which is to be funded from the proceeds of revenue bonds to be issued. See Note D for details on the Economic Development Bonds, Series 2002.

Description	Project Authorization	Expended To Date	Commitment	Required Further Financing
Water and sewer line installation	\$ 1,900,000	\$ 1,900,000	\$ -	\$ -

The construction is to be performed in four phases. Upon completion of each phase the infrastructure assets will be transferred to Galveston County Water Control and Improvement District No. 8 (WCID NO. 8) per interlocal agreement (See Note G). During the year ended September 30, 2008, Extension 1 – Phase 4 was completed and \$75,640 of water and sewer infrastructure was transferred to WCID No. 8. All construction phases were completed and transferred as of September 30, 2008.

D. – LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2008 was as follows:

	Beginning Balance October 1	Additions	Payments	Ending Balance September 30	Due Within One Year
Governmental Activities					
Economic Development Bonds, Series 2002	\$ 984,406	\$ -	\$ 165,042	\$ 819,364	\$ 174,056

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2008

Economic Development Bonds, Series 2002

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

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

The following is a schedule of future General Long-Term Debt payments as of September 30, 2008:

	Economic Development Bonds	
	Series 2002	
Year Ended September 30:		
2009	\$	213,832
2010		213,832
2011		213,832
2012		213,832
2013 and future		65,828
		<hr/>
Total principal and interest		921,156
Less: Amount representing interest		<hr/> (101,792)
Total future principal payments	\$	<hr/> <hr/> 819,364

E. – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

As of September 30, 2008, no amounts were reported as interfund receivables, payables, or transfers in the government-wide or governmental fund financial statements.

F. – RISK MANAGEMENT

During the normal course of business, the Corporation is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors or omissions; and natural disasters. The Corporation has been included as a "covered party" of the City of Santa Fe's insurance coverage and is entitled to all the declarations of coverage available to the City. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk Pool. This pool is a risk-sharing pool providing insurance coverage to 2,638 Texas municipalities and other governmental units as of September 30, 2008. 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

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2008

an employee member of the Pool. The Board controls the operations of the risk pool and has various powers and duties as specified in its bylaws. Audited financial information for each risk pool may be obtained from the Chief Financial Officer, Texas Municipal League Intergovernmental Risk Pool, P.O. Box 149194, Austin, Texas 78714-9194.

The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements related to the City or the Corporation has not exceeded insurance coverage for any of the last three years. All insurance premiums are paid by the City of Santa Fe through their General Fund. During the year ended September 30, 2008, the City paid net premiums of approximately \$47,067 for provisions of various liability, property, and casualty insurance. The City has coverage deductibles ranging from \$1,000 to \$10,000 on various policies. TML will pay damages and claims subject to the limits of liability and stated deductible amounts in accordance with the approved declarations of coverage. Amounts over the stated limits of liability become the responsibility and risk of the City of Santa Fe or the Economic Development Corporation. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At year-end, neither the City nor the Corporation had any significant probable claims.

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

G. – COMMITMENTS & CONTINGENT LIABILITIES

Interlocal Agreement

The Santa Fe Economic Development Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on August 27, 2003. This agreement specifies that the Corporation and WCID No. 8 work together for water and sewer development in four designated areas. The Corporation will pay for all construction and non-construction costs for the laying of water and sewer improvements, including lift stations, in these four designated areas. The Corporation will also be responsible for all costs associated with repairs and expenses of enforcement of the contractor's warranty, including the enforcement of such warranty against any construction bonding or surety companies, during the first year after completion and acceptance of the project.

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

The construction and non-construction costs for the laying of water and sewer improvements in the four designated areas has been completed and all infrastructure improvement assets have been transferred to WCID No. 8 as of September 30, 2008. All the terms and conditions of the interlocal agreement have been satisfied.

Litigation

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

Construction Commitments

The Corporation has a commitment for the construction of significant water and sewer infrastructure improvements. This commitment is expected to be funded from the proceeds of revenue bonds to be issued. Also see Note C for further discussion on construction commitments and Note D for details on the Economic Development Revenue Bonds.

Water and Sewer Infrastructure Construction, Improvements, and Relocation Commitment

The Economic Development Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on August 19, 2008. The Corporation will contribute funds for the construction, surveying, engineering, and related costs of relocating and adding water and sewer lines to FM 646, Texas State Highway

CITY OF SANTA FE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2008

6, and FM 646, not to exceed a total of one million dollars (\$1,000,000). The Corporation will also contribute funds for the construction, surveying, consulting, and related costs of certain public water and sewer system improvements on the west side of FM 646 from Lamar Lane to 6th Street, not to exceed a total of thirty-five thousand dollars (\$35,000). These amounts have not been recorded in the 2007-08 year financial statements but have been appropriated in the 2008-09 Economic Development Corporation budget.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SANTA FE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Revenues				
Taxes:				
Property	\$ 1,257,192	\$ 1,257,192	\$ 1,254,146	\$ (3,046)
Franchise and contract fees	618,000	618,000	636,940	18,940
Sales tax	850,000	878,000	898,222	20,222
Sales tax - property tax reduction	425,000	439,000	449,111	10,111
Licenses and permits	121,275	121,275	129,103	7,828
Municipal finds and cash bond forfeits	235,000	235,000	331,393	96,393
Intergovernmental revenues	58,100	43,076	4,193,375	4,150,299
Interest income	75,000	75,000	72,252	(2,748)
Penalty and interest, property taxes	31,000	31,000	25,899	(5,101)
Other revenues	18,300	37,765	194,586	156,821
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program - Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnership Program	-	119,312	165,710	46,398
	-	-	1,420	1,420
Total revenues	<u>3,688,867</u>	<u>3,854,620</u>	<u>8,352,157</u>	<u>4,497,537</u>
Expenditures				
Current:				
General government administration	450,159	439,521	433,047	6,474
Tax	13,858	13,858	13,060	798
Community services	272,823	272,823	231,186	41,637
Judicial/Police	1,871,369	1,902,409	1,788,749	113,660
Fire Marshal	12,325	12,325	9,707	2,618
Public Safety	63,454	61,304	54,628	6,676
Library	159,007	169,883	162,831	7,052
Streets	551,865	551,865	489,962	61,903
Parks	67,485	81,455	75,792	5,663
Community center	27,323	22,167	19,000	3,167
Capital expenditures	197,060	513,005	4,728,657	(4,215,652)
Debt service:				
Principal retirement	209,342	209,342	209,342	-
Interest	11,542	11,542	11,542	-
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program - Personnel cost	-	12,201	9,303	2,898
Fringe benefits	-	435	560	(125)
Travel	-	-	-	-
Supplies	-	2,407	2,708	(301)
Consultants/Contracts	-	4,200	4,200	-
Equipment	-	-	-	-
Other	-	105,757	154,627	(48,870)
Texas Department of Housing and Community Affairs (TDHCA); HOME Investment Partnerships Program Other costs	-	-	1,420	(1,420)
Total expenditures	<u>3,907,612</u>	<u>4,386,499</u>	<u>8,400,321</u>	<u>(4,013,822)</u>

(Continued)

See notes to required supplementary information.

CITY OF SANTA FE, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Excess (deficiency) of revenues over (under) expenditures	\$ (218,745)	\$ (531,879)	\$ (48,164)	\$ 483,715
Other Financing Sources (Uses):				
Transfer in	-	-	1,136,685	1,136,685
Transfer out	-	-	(1,136,685)	(1,136,685)
Proceeds from sale of capital assets	-	-	-	-
Capital lease contracts	-	292,634	292,634	-
Appropriated fund balance	218,745	239,245	-	(239,245)
Total other financing sources (uses)	218,745	531,879	292,634	(239,245)
Net change in fund balances	-	-	244,470	244,470
Fund balances at beginning of year	1,697,607	1,697,607	1,697,607	-
Fund balances at end of year	\$ 1,697,607	\$ 1,697,607	\$ 1,942,077	\$ 244,470

See notes to required supplementary information.

*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - DRUG FREE COMMUNITIES SUPPORT PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 2008*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues:				
Department of Health and Human Services Grant	\$ -	\$ 100,000	\$ 100,000	\$ -
Total revenues	-	100,000	100,000	-
Expenditures				
Current:				
Personnel costs	-	36,000	36,000	-
Fringe benefits	-	3,935	3,935	-
Travel	-	3,200	3,431	(231)
Supplies	-	3,040	3,739	(699)
Consultants/Contracts	-	50,725	47,680	3,045
Equipment	-	2,680	3,745	(1,065)
Other	-	420	1,470	(1,050)
Total expenditures	-	100,000	100,000	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	100,000	100,000
Transfer out	-	-	(100,000)	(100,000)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information.

*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - HOME INVESTMENT PARTNERSHIPS PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 2008*

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

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 SPECIAL REVENUE FUND - FEDERAL EMERGENCY MANAGEMENT PUBLIC
 ASSISTANCE GRANT (FEMA); HURRICANE IKE
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Revenues				
Intergovernmental revenues:				
Texas Department of Public Safety's Emergency Management Grant/ Hurricane Ike	\$ -	\$ -	\$ 1,016,875	\$ 1,016,875
Total revenues	-	-	1,016,875	1,016,875
Expenditures				
Current:				
General government administration	-	-	1,323	(1,323)
Judicial / Police	-	-	76,550	(76,550)
Streets	-	-	58,768	(58,768)
Public Safety	-	-	880,120	(880,120)
Parks	-	-	114	(114)
Total expenditures	-	-	1,016,875	(1,016,875)
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	1,016,875	1,016,875
Transfer out	-	-	(1,016,875)	(1,016,875)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

Note to Schedule:

This fund was created to account for expenditures related to recovery efforts due to Hurricane Ike which struck the Gulf Coast in September, 2008. The City of Santa Fe was unable to adopt a budget for the fund due to the timing of the City's year-end and the uncertainty of expenditures subject to FEMA assistance grant funds.

*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - TEXAS COMMUNITY DEVELOPMENT BLOCK
GRANT (TxCDBG) SUPPLEMENTAL FUND PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 2008*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenues:				
Texas Office of Rural Community Affairs Grant	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Current:				
Water facilities	-	-	-	-
Rehabilitation of Private Properties	-	-	-	-
Engineering/Architectural Service	-	-	-	-
General Administration	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 SPECIAL REVENUE FUND - INTERNET CRIMES AGAINST CHILDREN PROGRAM
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
Revenues				
Intergovernmental revenues:				
Texas Office of Attorney General Grant	\$ -	\$ 9,500	\$ 9,500	\$ -
Total revenues	-	9,500	9,500	-
Expenditures				
Current:				
Judicial/Police				
Forensic computer equipment	-	7,749	7,505	244
Training	-	1,751	1,995	(244)
Total expenditures	-	9,500	9,500	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	9,500	9,500
Transfer out	-	-	(9,500)	(9,500)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	\$ -	\$ -	\$ -	\$ -

See notes to required supplementary information.

*SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND - SELECTIVE TRAFFIC ENFORCEMENT (STEP) PROGRAM
FOR THE YEAR ENDED SEPTEMBER 30, 2008*

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable (Unfavorable)</u>
Revenues				
Intergovernmental revenues:				
Texas Department of Transportation Grant	\$ -	\$ 21,000	\$ 10,310	\$ (10,690)
Total revenues	-	21,000	10,310	(10,690)
Expenditures				
Current:				
Judicial/Police				
Law enforcement overtime labor costs (salaries only)	-	21,000	10,310	10,690
Total expenditures	-	21,000	10,310	10,690
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfer in	-	-	10,310	10,310
Transfer out	-	-	(10,310)	(10,310)
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balances at beginning of year	-	-	-	-
Fund balances at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to required supplementary information.

BUDGETARY INFORMATION

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

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

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

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

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

The original budget was legally adopted by the City Council on September 13, 2007. Passed, approved, and adopted by the City Council was Ordinance Number 04-2008 on February 14, 2008, Ordinance Number 11-2008 on June 12, 2008, and Ordinance Number 16-2008 on August 28, 2008. All of these contain legal budget amendments.

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

For the year ended September 30, 2008, expenditures exceeded appropriations in the following:

General Fund:		
Capital expenditures	\$	4,215,652

There were significant expenditure differences due to recording the conveyance of infrastructure streets and drainage as capital expenditures. Recording these capital expenditures in the amount of \$4,298,236 was offset by an equal amount in intergovernmental revenues.

CITY OF SANTA FE, TEXAS
 SCHEDULE OF FUNDING PROGRESS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SEPTEMBER 30, 2008

EXHIBIT 8

The following is a summary of historical information regarding the retirement plan for the employees of the City of Santa Fe.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a ÷ b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] ÷ c)
12/31/98	\$325,240	\$966,623	\$641,383	33.6%	\$1,433,033	44.8%
12/31/99	\$520,538	\$1,217,178	\$696,640	42.8%	\$1,429,200	48.7%
12/31/00	\$711,316	\$1,576,605	\$865,289	45.1%	\$1,513,770	57.2%
12/31/01	\$984,974	\$1,792,467	\$807,493	55.0%	\$1,702,582	47.4%
12/31/02	\$1,253,609	\$2,099,331	\$845,722	59.7%	\$1,727,280	49.0%
12/31/03	\$1,528,727	\$2,596,799	\$1,068,072	58.9%	\$1,803,830	59.2%
12/31/04	\$1,807,945	\$3,270,612	\$1,462,667	55.3%	\$1,744,529	83.8%
12/31/05	\$2,057,691	\$3,546,038	\$1,488,347	58.0%	\$1,984,448	75.0%
12/31/06	\$2,436,608	\$3,979,314	\$1,542,706	61.2%	\$1,997,159	77.3%
12/31/07	\$2,799,348	\$5,203,197	\$2,403,849	53.8%	\$2,124,360	113.2%

CITY OF SANTA FE, TEXAS
 SCHEDULE OF TEMPORARY INVESTMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE 1

General Fund:

Certificate of Deposits:

<u>Certificate Numbers</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>September 30, 2008 Balance</u>
40419673	2.12%	02/12/09	\$ 118,252
40419674	2.12%	02/12/09	118,252
40419675	2.12%	02/12/09	222,306
40419757	2.21%	12/15/08	119,401
40419758	2.21%	12/15/08	119,401
40419759	2.21%	12/15/08	119,401
Total temporary investments			<u>\$ 817,013</u>

CITY OF SANTA FE, TEXAS
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2008

SCHEDULE 2

Taxes receivable - October 1		\$	146,989
2007 original tax assessment	\$	1,260,229	
Add (Deduct): Abatements and adjustments to tax rolls during the year		<u>6,575</u>	<u>1,266,804</u>
Total to be accounted for			1,413,793
Less collections:			
Current year		1,218,458	
Prior years		<u>42,253</u>	
Total collections			<u>1,260,711</u>
Taxes receivable - September 30			153,082
Less allowance for uncollectible taxes			<u>(24,507)</u>
Net taxes receivable - September 30		\$	<u>128,575</u>

Taxes receivable by years:

2007	\$	47,198	
2006		21,997	
2005		12,955	
2004		9,732	
2003		7,228	
2002		5,841	
2001		4,619	
2000		4,384	
1999		4,361	
1998		4,115	
1997 and prior years		<u>30,652</u>	\$ 153,082
Less allowance for uncollectible taxes			<u>(24,507)</u>
Net taxes receivable - September 30			\$ <u>128,575</u>

Assessed valuation	\$	447,266,859
Percent of assessed valuation to the fair market value		100.00%
Tax rate per \$100 valuation		0.2992
Percent of the current year's taxes collected to the current taxes levied		96.69%
Percent of the current and delinquent taxes collected to current and delinquent taxes outstanding at the beginning of the year		89.17%

CITY OF SANTA FE, TEXAS

SCHEDULE 3

CITY COUNCIL, KEY ADMINISTRATIVE PERSONNEL AND LEGAL COUNSEL
FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>Name, Address, and Term of Office, Elected-Expires</u>	<u>Annual Salary</u>	<u>Title</u>	<u>Resident of City</u>	<u>Relationship with Major Land Owners, Engineer, Attorney and Tax Assessor-Collector</u>
Ralph Stenzel 5518 FM 646S Santa Fe, Tx 77510 5/07 to 5/09	\$0	Mayor	Yes	None
Ronald "Bubba" Jannett 5136 Ave L Santa Fe, Tx 77510 05/08 to 05/10	\$0	Mayor Pro-Tem	Yes	None
Jeff Tambrella 12017 - 24th. Street Santa Fe, Tx 77510 5/07 to 5/09	\$0	Council Member	Yes	None
Rebecca A. Darden 12815 Middleham Lane Santa Fe, Tx 77510 05/08 to 05/10	\$0	Council Member	Yes	None
Pam Schwertner 4322 Jensen Santa Fe, Tx 77517 5/07 to 5/09	\$0	Council Member	Yes	None
Joe Carothers 4410 Castle Drive Santa Fe, Tx 77510 05/08 to 05/10	\$0	Council Member	Yes	None
Joe Dickson 3807 Wade Santa Fe, Tx 77510	\$93,682	City Manager	Yes	None
Janet Davis 12835 24th St. Santa Fe, Tx 77510	\$53,678	City Secretary/Treasurer	Yes	None
Ellis J. Ortego 606 Bayou Crest Dr. Dickinson, Tx 77536	\$22,839	Prosecutor and City Attorney	No	None

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

	September 30, 2008		Variance - Over (Under) Budget	September 30, 2007	
	Final Budget	Actual		Actual	
PRIMARY GOVERNMENT:					
GENERAL FUND					
Administration					
Capital expenditures					
Furniture and office equipment	\$ 1,950	\$ 1,761	\$ (189)	\$ 1,910	
Instruments	-	-	-	-	
Buildings and structures	-	-	-	-	
Motor vehicle	-	-	-	-	
Machinery, tools and equipment	-	-	-	3,280	
Capital outlay, capital lease	-	-	-	-	
Insurance	48,000	47,067	(933)	40,438	
Maintenance and repairs	7,500	6,918	(582)	8,658	
Personnel services	302,396	300,431	(1,965)	280,256	
Special services	63,900	56,506	(7,394)	51,468	
Supplies and materials	9,100	7,673	(1,427)	8,028	
Utilities	8,625	8,176	(449)	8,205	
Compensated absences	-	6,276	6,276	204	
Contingency fund	-	-	-	-	
Total	<u>441,471</u>	<u>434,808</u>	<u>(6,663)</u>	<u>402,447</u>	
Tax					
Capital expenditures					
Furniture and office equipment	-	-	-	-	
Maintenance and repairs	-	-	-	-	
Personnel services	-	-	-	10,594	
Special services	13,858	13,060	(798)	-	
Supplies and materials	-	-	-	-	
Utilities	-	-	-	-	
Total	<u>13,858</u>	<u>13,060</u>	<u>(798)</u>	<u>10,594</u>	
Community Services					
Capital expenditures					
Furniture and office equipment	12,874	12,874	-	12,874	
Instruments	-	-	-	-	
Buildings and structures	-	-	-	-	
Capital Outlay, Capital Lease	-	-	-	34,000	
Maintenance and repairs	6,500	2,866	(3,634)	3,029	
Personnel services	217,748	204,923	(12,825)	188,352	
Special services	30,200	12,833	(17,367)	22,812	
Supplies and materials	10,050	6,262	(3,788)	5,106	
Utilities	8,325	7,640	(685)	7,693	
Compensated absences	-	(3,337)	(3,337)	(2,938)	
Total	<u>285,697</u>	<u>244,061</u>	<u>(11,636)</u>	<u>270,228</u>	

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

	September 30, 2008		Variance -	September 30, 2007
	Final Budget	Actual	Over (Under) Budget	Actual
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Judicial				
Capital expenditures				
Furniture and office equipment	\$ 9,500	\$ 8,613	\$ (887)	\$ 10,877
Instruments	-	-	-	3,819
Motor vehicles	-	-	-	-
Maintenance and repairs	7,800	4,392	(3,408)	3,995
Personnel services	161,615	160,100	(1,515)	135,201
Special services	46,060	42,627	(3,433)	36,328
Supplies and materials	9,850	9,345	(505)	7,586
Utilities	2,740	2,738	(2)	2,619
Compensated absences	-	(1,887)	(1,887)	5,613
Total	<u>237,565</u>	<u>225,928</u>	<u>(11,637)</u>	<u>206,038</u>
Police				
Capital expenditures				
Furniture and office equipment	44,144	44,123	(21)	8,555
Instruments	13,650	13,016	(634)	10,876
Machinery, tools and equipment	-	-	-	-
Motor vehicle - patrol cars	66,473	65,437	(1,036)	47,950
Seized/Awarded vehicle	-	-	-	8,135
Police car - County donation	-	-	-	-
Capital lease equipment	-	-	-	-
Capital outlay, capital lease	165,955	165,955	-	106,939
Maintenance and repairs	61,860	28,213	(33,647)	44,749
Personnel services	1,436,014	1,385,187	(50,827)	1,249,138
Special services	16,000	13,069	(2,931)	7,667
Supplies and materials	131,426	123,442	(7,984)	99,900
Utilities	28,800	26,526	(2,274)	26,034
Compensated absences	-	(5,003)	(5,003)	(5,471)
Total	<u>1,964,322</u>	<u>1,859,965</u>	<u>(104,357)</u>	<u>1,604,472</u>
Fire Marshal				
Capital expenditures				
Furniture and office equipment	-	-	-	-
Instruments	2,500	2,500	-	-
Buildings and structures	-	-	-	-
Maintenance and repairs	1,500	586	(914)	1,202
Personnel services	7,175	6,371	(804)	3,115
Special services	600	511	(89)	368
Supplies and materials	2,150	1,663	(787)	1,423
Utilities	600	576	(24)	578
Total	<u>14,825</u>	<u>12,207</u>	<u>(2,618)</u>	<u>6,686</u>

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

	September 30, 2008		Variance - Over (Under) Budget	September 30, 2007	
	Final Budget	Actual		Budget	Actual
PRIMARY GOVERNMENT:					
GENERAL FUND (Continued)					
Public Safety					
Special services	\$ 56,954	\$ 53,284	(3,670)	\$ 53,808	
Utilities	1,000	612	(388)	1,470	
Personnel services	2,000	404	(1,596)	-	
Supplies and materials	1,350	328	(1,022)	-	
Total	61,304	54,628	(6,676)	55,278	
Library					
Capital expenditures					
Furniture and office equipment	1,435	1,435	-	-	
Instruments	-	-	-	-	
Buildings and structures	-	-	-	-	
Machinery, tools and equipment	-	-	-	-	
Maintenance and repairs	4,100	3,381	(719)	2,938	
Personnel services	123,312	122,273	(1,039)	116,050	
Special services	5,725	4,953	(772)	5,710	
Supplies and materials	18,546	16,444	(2,102)	14,817	
Utilities	18,200	17,114	(1,086)	13,230	
Compensated absences	-	(1,334)	(1,334)	3,509	
Total	171,318	164,266	(7,052)	156,254	
Streets					
Capital expenditures					
Furniture and office equipment	-	-	-	-	
Buildings and structures	-	-	-	-	
Roller	-	-	-	-	
Machinery, tools and equipment	-	-	-	-	
Motor vehicles - other	-	-	-	10,000	
Motor vehicles - gradall	50,146	50,146	-	50,146	
Motor vehicles - dump trucks	18,985	17,472	(1,513)	17,472	
Motor vehicles - slope mower	42,015	42,015	-	-	
Street improvements	132,000	78,227	(53,773)	163,855	
Streets infrastructure - contributions	-	2,464,575	2,464,575	-	
Drainage infrastructure - contributions	-	1,833,661	1,833,661	-	
Capital outlay, capital lease	121,818	121,818	-	48,220	
Maintenance and repairs	72,950	35,814	(37,136)	65,456	
Personnel services	376,365	355,619	(20,746)	347,400	
Special services	3,700	2,909	(791)	1,447	
Supplies and materials	61,050	59,156	(1,894)	48,809	
Utilities	37,800	34,861	(2,939)	34,446	
Compensated absences	-	1,603	1,603	(3,084)	
Total	916,829	5,097,876	4,181,047	784,167	

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

	September 30, 2008		Variance -	September 30, 2007
	Final Budget	Actual	Over (Under) Budget	Actual
PRIMARY GOVERNMENT:				
GENERAL FUND (Continued)				
Parks				
Capital expenditures				
Buildings and structures	\$ 29,000	\$ 20,757	\$ (8,243)	\$ 63,315
Parking lot improvements	16,530	-	(16,530)	-
Tractors/mowers	-	-	-	-
Maintenance and repairs	6,000	4,404	(1,596)	2,210
Personnel services	42,675	40,460	(2,215)	27,912
Special services	4,760	2,172	(2,588)	35
Supplies and materials	26,300	25,709	(591)	48,986
Utilities	1,720	1,681	(39)	279
Compensated absences	-	1,365	1,365	(682)
Total	<u>126,985</u>	<u>96,548</u>	<u>(30,437)</u>	<u>142,055</u>
Special Projects				
Special services	-	-	-	-
Supplies and materials	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Community Center				
Capital expenditures				
Furniture and office equipment	-	-	-	-
Buildings and structures	-	-	-	-
Machinery, tools and equipment	5,157	5,157	-	-
Maintenance and repairs	6,993	4,351	(2,642)	5,886
Personnel services	2,574	2,817	243	2,574
Special services	675	737	62	579
Supplies and materials	1,500	1,441	(59)	3,727
Utilities	10,426	9,653	(773)	11,073
Total	<u>27,325</u>	<u>24,156</u>	<u>(3,169)</u>	<u>23,839</u>
HOME Investment Partnerships Program				
Project construction costs	-	-	-	-
Other costs	-	1,420	1,420	-
Total	<u>-</u>	<u>1,420</u>	<u>1,420</u>	<u>-</u>

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

	September 30, 2008		Variance - Over (Under) Budget	September 30, 2007	
	Final Budget	Actual		Budget	Actual
PRIMARY GOVERNMENT:					
GENERAL FUND (Continued)					
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program					
Personnel costs	\$ 12,201	\$ 9,303	\$ (2,898)	\$ 21,128	
Fringe benefits	435	560	125	115	
Travel	-	-	-	-	
Supplies	2,407	2,708	301	1,642	
Consultants/Contracts	4,200	4,200	-	2,000	
Other	105,757	154,627	48,870	145,919	
Total	125,000	171,398	46,398	170,804	
TOTAL - GENERAL FUND	4,386,499	8,400,321	4,013,822	3,833,562	
SPECIAL REVENUE FUND					
Substance Abuse and Mental Health Services (SAMHSA); Drug Free Communities Support Program					
Personnel costs	36,000	36,000	-	22,000	
Fringe benefits	3,935	3,935	-	3,935	
Travel	3,200	3,431	231	3,031	
Supplies	3,040	3,739	699	1,779	
Consultants/Contracts	50,725	47,680	(3,045)	68,956	
Equipment	2,680	3,745	1,065	-	
Other	420	1,470	1,050	299	
Total	100,000	100,000	-	100,000	
HOME Investment Partnerships Program					
Administrative management services	-	-	-	-	
Other costs	-	-	-	-	
Total	-	-	-	-	
Federal Emergency Management Public Assistance Grant (FEMA); Hurricane Ike					
Maintenance and repairs	-	63,017	63,017	-	
Personnel services	-	73,146	73,146	-	
Special services	-	880,120	880,120	-	
Supplies and materials	-	592	592	-	
Total	-	1,016,875	1,016,875	-	

(Continued)

SCHEDULE OF EXPENDITURES COMPARED TO BUDGET

ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT

FOR THE YEAR ENDED SEPTEMBER 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

	September 30, 2008		Variance - Over (Under) Budget	September 30, 2007 Actual
	Final Budget	Actual		
PRIMARY GOVERNMENT:				
SPECIAL REVENUE FUND (Continued)				
Texas Community Development Block Grant (TxCDBG) Supplemental Fund Program				
Total	\$ -	\$ -	\$ -	\$ -
Internet Crimes Against Children Program				
Capital expenditures				
Furniture and office equipment	6,145	6,145	-	-
Maintenance and repairs	1,360	1,360	-	-
Personnel services	1,995	1,995	-	-
Total	9,500	9,500	-	-
Selective Traffic Enforcement Program (STEP)				
Personnel services	21,000	10,310	(10,690)	-
Total	21,000	10,310	(10,690)	-
TOTAL - SPECIAL REVENUE FUND	130,500	1,136,685	1,006,185	100,000
Total Expenditures - Primary Government All Funds and Departments	4,516,999	9,537,006	5,020,007	3,933,562
COMPONENT UNIT:				
GENERAL FUND				
Administration				
Capital expenditures				
Infrastructure improvements	493,833	213,833	(280,000)	213,832
Personnel services	16,000	15,045	(955)	14,970
Special services	9,300	23,886	14,586	7,469
Supplies and materials	700	241	(459)	521
Total	519,833	253,005	(266,828)	236,792
Total Expenditures - Component Unit All Funds and Departments	519,833	253,005	(266,828)	236,792
Total Expenditures - Reporting Entity All Funds and Departments	\$ 5,036,832	\$ 9,790,011	\$ 4,753,179	\$ 4,170,354

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FEDERAL AWARDS SECTION

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Santa Fe, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the City of Santa Fe Section 4B Economic Development Corporation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

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

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



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

September 10, 2009



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

Phone: 409-925-2572

Fax: 409-925-4320

Email: cambianocpas@aol.com

P. O. Box 936
4230 Warpath
Santa Fe, TX 77510-0936

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

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the City of Santa Fe, Texas with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Santa Fe, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City of Santa Fe, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a

major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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



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

September 10, 2009

CITY OF SANTA FE, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
United States Department of Health and Human Services; Passed Through Substance Abuse and Mental Health Services Administration; Drug Free Communities Support Program (SAMHSA)	93.276	5H79SPO10816-04	\$ 100,000
United States Department of Housing and Urban Development; Passed Through Texas Department of Housing and Community Affairs; HOME Investment Partnerships Program, Owner Occupied Housing Assistance	14.239	1000710	-
United States Department of Housing and Urban Development; Passed Through Office of Rural Community Affairs (ORCA); Texas Community Development Block Grant Program, Community Development Supplemental Fund	14.228	728370	-
Total United States Department of Housing and Urban Development			-
United States Department of Homeland Security; Passed Through Texas Department of Public Safety; Emergency Management Public Assistance Grant/Hurricane Ike (FEMA)	97.036	167-65726-00 FEMA-1791-DR-Hurricane Ike	1,016,875
United States Department of Justice, Office of Juvenile Justice and Delinquency Prevention; Passed Through Office of Attorney General (OAG) - State of Texas; Internet Crimes Against Children Program	16.543	0806281	9,500
National Highway Traffic Safety Administration (NHTSA); Passed Through Texas Department of Transportation (TxDOT); Selective Traffic Enforcement program (STEP) Comprehensive	20.600	588EGF6104	10,310
Total Expenditures of Federal Awards			\$ 1,136,685

See Notes to Schedule of Expenditures of Federal Awards.

CITY OF SANTA FE, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 – BASIS OF PRESENTATION

For all Federal programs the City uses Special Revenue Funds to account for resources restricted to, or designated for, specific purposes by a grantor. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund Type. The modified accrual basis of accounting is used for the Governmental Fund Types and the accompanying Schedule of Expenditures of Federal Awards. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable.

Federal grant funds are considered to be earned to the extent of expenses made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

CITY OF SANTA FE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

I. Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

<u>CFDA Number</u>	<u>Name of Federal Program</u>
97.036	United States Department of Homeland Security; Emergency Management Public Assistance Grant/Hurricane Ike (FEMA)

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

II. Financial Statement Findings

None Reported.

III. Federal Award Findings and Questioned Costs

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

IV. Status of Prior Year Findings and Questioned Costs

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

Corrective Action Plan

Not Applicable