CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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INTRODUCTORY SECTION

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

BOARD OF DIRECTORS

Robert Cheek	President
Joe Carothers	Vice President
Pat McCrary	Secretary/Treasurer
Rosie Morales	Board Member
Ralph Stenzel	Board Member
Rusty Norman	Board Member
Ted Gillis	Board Member
Joe Dickson City Manager, City of Santa Fe	Ex-Officio Member
Tim Turner General Manager, WCID #8	Ex-Officio Member

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FINANCIAL SECTION

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

Phone: 409-925-2572 Fax: 409-925-4320 Email: cambianocpas@aol.com

P. O. Box 936
12406 Highway 6
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 Board of Directors
City of Santa Fe Section 4B
Economic Development Corporation
Santa Fe, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Santa Fe Section 4B Economic Development Corporation, a component unit of the City of Santa Fe, Texas, as of and for the year ended September 30, 2012, which collectively comprise the Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Santa Fe Section 4B Economic Development Corporation, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the budgetary comparison information on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's financial statements as a whole. The introductory section and other supplementary information are presented for purpose of additional analysis and are not a required part of the financial statements. The introductory section and other supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cambiano & Cambiano, P.C.

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

May 28, 2013

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This section of the City of Santa Fe Section 4B Economic Development Corporation's (Corporation) annual financial report presents management's discussion and analysis of the Corporation's financial performance during the fiscal year that ended on September 30, 2012. Please read it in conjunction with the basic financial statements and the accompanying notes to basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Corporation exceeded its liabilities at the close of the fiscal year ending September 30, 2012 by $1,889,303 (net assets) compared to $1,686,597 (net assets) in the prior year. Of the amount of $1,889,303, for the year ending September 30, 2012, $1,666,375 may be used to continue construction of water and sewer infrastructure improvements in accordance with the Corporation's fund designation and fiscal policies. Capital assets amounted to $222,928. These capital assets are not shown net of related debt because no debt exists at the end of the current fiscal year.

- The Corporation's total net assets increased $202,706 compared to an increase in the prior year of $361,961. The decrease from the prior year resulted from a contribution to WCID No. 8 on completed projects.

- In contrast to the government-wide statements, the fund financial statements report a fund balance at year-end of $1,666,375 an increase of $350,794 in comparison to the prior year. This total amount may be used to continue construction of water and sewer infrastructure improvements.

- At September 30, 2012, sales tax revenues comprise 39.4% and County of Galveston reimbursement for FM 646 right-of-way purchases comprise 57.7% of General Fund revenues in the government-wide statements and in the governmental funds statement.

- The Corporation's investment in capital assets had a net decrease of $148,088. Please see further details in Note 4 of the Notes to Basic Financial Statements.

- The Corporation has no long-term debt as of September 30, 2012. Please see further details in Note 5 of the Notes to Basic Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City of Santa Fe Section 4B Economic Development Corporation (Corporation) basic financial statements. The Corporation's basic financial statements are comprised of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to 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 Corporation's finances utilizing the full accrual method of accounting, in a manner similar to a private-sector business. Under the full accrual method of accounting, transactions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, assets, liabilities, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The Statement of Net Assets presents information on all of the Corporation's assets and liabilities, including capital assets and long-term 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 Corporation as a whole is improving or deteriorating.

The Statement of Activities presents information showing how the Corporation's net assets changed during the most recent fiscal year. Functional activities are highlighted in this statement, whereby direct and indirect functional costs are shown net of related program revenue. This statement shows the extent to which the various functions depend on general taxes and non-program revenues for support.

Both government-wide financial statements distinguish functions of the Corporation that are principally supported by taxes and intergovernmental 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). The governmental activities of the Corporation include general government administration. Sales taxes finance this governmental activity. The Corporation does not have any business-type activities. Both of these statements are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis.

The Government-Wide Financial Statements can be found on pages 12 and 13 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 Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Corporation are governmental funds.

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. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of the governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Balance Sheet–Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation only has one governmental fund, the General Fund. The Governmental Fund Financial Statements can be found on pages 14 through 17 of this report.

The Corporation adopts an annually appropriated budget for its governmental fund. Budgetary comparison statements for the General Fund are required supplementary information and are presented on page 34 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 18 through 33.

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. It also includes Notes to Required Supplementary Information.

The Required Supplementary Information can be found on pages 34 and 35 of this report.

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

As noted earlier, net assets may serve over time as a useful indicator of the Corporation's financial position. In the case of the Corporation, assets exceeded liabilities by $1,889,303 at the close of the current fiscal year.

As shown in Table 1, for the current fiscal year 2012, approximately 88.2% of the Corporation's net assets are restricted as to the purposes they can be used for. The investment in capital assets is not net of related debt because the Corporation acquires no capital assets, therefore the debt is not capital related. The Corporation has incurred a liability decreasing its net assets, with no corresponding increase in its capital or financial assets. At the end of the current fiscal year, the Economic Development Corporation is able to report positive balances in both categories of net assets.

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Current and other assets	$ 1,666,456	$ 1,315,707
Capital assets	222,928	371,016
Total Assets	1,889,384	1,686,723
Current and other liabilities	81	125
Long-term liabilities	-	-
Total Liabilities	81	125
Net Assets:		
Invested in capital assets	222,928	371,016
Restricted	1,666,375	1,315,582
Total Net Assets	$ 1,889,303	$ 1,686,598

Governmental type activities increased the Corporation's net assets by $202,706 in the 2012 fiscal year. The key elements of this increase are as follows:

Table 2
Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenues:		
General revenues:		
Sales tax	$ 456,404	$ 442,434
Other	702,998	343,566
Total Revenues	1,159,402	786,000
Expenses:		
General government administration	769,653	424,039
Interest on long-term debt	-	-
Total Expenses	769,653	424,039
Excess (deficiency) before special items	389,749	361,961
Special items:		
Contribution to Political Subdivision	(187,043)	-
Increase(decrease) in net assets	202,706	361,961
Net assets - beginning	1,686,597	1,324,637
Net assets - ending	$ 1,889,303	$ 1,686,598

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

- For the fiscal year ended September 30, 2012, general revenues of $1,159,402 exceeded Corporation expense of $769,653 by $389,749. Sales tax makes up approximately 39.4% of the total revenues and 57.7% is reimbursement from the County of Galveston related to FM 646 right-of-way purchases.

- Total expenses of $769,653 are comprised of general government administration expenses. Administration, training and travel make up $15,000, supplies and materials $438, and special services of $754,215. The largest item related to special services is the contribution to the County of Galveston for FM 646 right-of-way purchases ($742,860).

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS (GOVERNMENTAL FUNDS FINANCIAL ANALYSIS)

As noted earlier, the Economic Development Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation only has governmental funds which are comprised of only a General Fund.

Governmental Funds

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

For the fiscal year ended September 30, 2012, the General fund had a fund balance of $1,666,375. The fund balance increased by $350,794. Included in this change in fund balance is an increase in revenues of $373,402 over the prior year. A majority of this increase is $334,287 in reimbursements from the County of Galveston related to the FM 646 right-of-way purchases, an increase in property owners' easement contributions of $29,903, and sales tax revenue of $13,970. Interest income decreased $4,758. The change in expenditures was a slight increase of $61,764 from the prior year. Most of this increase was the net result of a decrease in capital outlay of $283,850 and an increase in contributions to the County of Galveston for FM 646 right-of-way purchases of $371,430.

GENERAL FUND BUDGETARY HIGHLIGHTS

After the original budget is approved, it may be revised for a variety of reasons such as unforeseen circumstances, new bond or loan proceeds, or unanticipated revenues or expenditures.

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 $41,124. This increase was a result of increases in sales tax revenue of $10,000, easement contributions by property owners $29,903, and interest income increases of $1,221.

- A net decrease in the budget for expenditures of $101,325. General government administration expenses were decreased $3,145 and capital outlay decreased $98,180.

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

- Actual General Fund revenues of $1,159,402 were more than budgeted final revenue of $1,137,998 by $21,404. This was due to more actual sales tax revenue collected than budgeted.

- General Fund actual expenditures of $808,608 were less than final budgeted estimated expenditures of $812,170 by $3,562. This difference was in the area of general government administration expenses.

- The final budget estimated an increase in existing fund balance of $325,828. Actual revenues exceeded actual expenditures by $350,794. Therefore, fund balance was actually increased $24,966 more than the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Corporation's investment in capital assets as of September 30, 2012, amounted to $222,928. This investment is made up of non-depreciable capital assets of land and construction in progress. Both the land and construction in progress are related to water and sewer infrastructure improvements. Upon completion of these improvements they will be transferred to Galveston County Water Control and Improvement District No. 8 (WCID No. 8) per interlocal agreement (See Note 4).

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2012	2011
Land-property owners easement contributions	$ 53,703	$ 23,800
Construction in progress	169,225	347,216
Total Capital Assets	222,928	371,016
Less: Accumulated depreciation	-	-
Total Capital Assets, Net of Accumulated Depreciation	$ 222,928	$ 371,016

Additional information on the Corporation's capital assets can be found in Note 4 of the Notes to Basic Financial Statements, on page 29 of this report.

Long-Term Debt

As of September 30, 2012, the Corporation had no debt outstanding.

Additional information on the Corporation's long-term debt can be found in Note 5 of the Notes to Basic Financial Statements, on page 29 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Corporation's Board of Directors adopted the operating budget for the fiscal year beginning October 1, 2012, and ending September 30, 2013, on August 21, 2012. The Board considered many factors in making decisions and estimates about the finances of the upcoming year. Significant factors considered in preparing the Corporation's budget for the fiscal year 2012-2013 were:

- The amount of revenue available for appropriations is $633,643. Economic factors are considered to be about the same as the prior year, therefore budgeted sales tax revenues make up 73.4% of budgeted revenues and 26.4% are made up of reimbursement from the County of Galveston related to FM 646 right-of-way purchases.

- The Corporation will use the above budgeted revenues to finance budgeted expenditures of $349,850. These budgeted expenditures are a $462,320 decrease from the final budgeted prior year expenditures. This decrease is a net increase in capital outlay budget of $89,180 and a decrease in the amount budgeted for contributions to the County of Galveston for FM 646 right-of-way purchases $557,145.

- If the budgeted estimates are realized, the Corporation's General Fund fund balance is expected to increase by $283,793.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, creditors, and other interested parties with a general review of the Corporation's finances and to demonstrate the Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Economic Development Corporation's President or Administrative Secretary at 12002 Highway 6, P. O. Box 950, Santa Fe, Texas 77510.

BASIC FINANCIAL STATEMENTS

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CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Governmental Activities	Total
ASSETS		
Cash and cash equivalents	$ 46,083	$ 46,083
Investments:		
Tex Pool	99,563	99,563
Logic	436,585	436,585
Receivable from other governments	1,084,225	1,084,225
Capital assets:		
Land	53,703	53,703
Construction in progress	169,225	169,225
Total Assets	1,889,384	1,889,384
LIABILITIES		
Accounts payable	81	81
Noncurrent liabilities:		
Due within one year	-	-
Due in more than one year	-	-
Total Liabilities	81	81
NET ASSETS		
Invested in capital assets	222,928	222,928
Restricted for:		
Future budget requirements	-	-
Infrastructure improvements	1,666,375	1,666,375
Total Net Assets (Deficit)	$ 1,889,303	$ 1,889,303

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net assets: Governmental Activities
Governmental Activities:					
General government administration	$ 769,653	$ -	$ -	$ 698,477	$ (71,176)
Interest on long-term debt	-	-	-	-	-
Total Governmental Activities	$ 769,653	$ -	$ -	$ 698,477	(71,176)
General Revenues:					
Taxes:					
Sales					456,404
Investment earnings					4,521
Special item:					
Contribution to Political Subdivision - Galveston County Water Control Improvement District No. 8 - water and sewer infrastructure improvements					(187,043)
Total General Revenues and Special Item					273,882
Change in Net Assets					202,706
Net Assets at Beginning of Year					1,686,597
Net Assets at End of Year					$ 1,889,303

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	$ 46,083	$ 46,083
Investments:		
Tex Pool	99,563	99,563
Logic	436,585	436,585
Receivable from other governments	1,084,225	1,084,225
Total Assets	$ 1,666,456	$ 1,666,456
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 81	$ 81
Fund Balances:		
Committed to:		
Future budget requirements	-	-
Infrastructure improvements	1,666,375	1,666,375
Total Fund Balances	1,666,375	1,666,375
Total Liabilities and Fund Balances	$ 1,666,456	$ 1,666,456

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	$ 1,666,375
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds (See Note 4).	222,928
Long-term liabilities are not payable in the current period and therefore are not reported in the governmental funds (See Note 5).	-
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 1,889,303

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Total Governmental Funds
Revenues		
Taxes:		
Sales	$ 456,404	$ 456,404
Property owners' easement contribution	29,903	29,903
County of Galveston reimbursement	668,574	668,574
Interest income	4,521	4,521
Total revenues	1,159,402	1,159,402
Expenditures		
Current:		
General government administration	769,653	769,653
Capital outlay	38,955	38,955
Debt service:		
Principal	-	-
Interest	-	-
Total expenditures	808,608	808,608
Excess of revenues over (under) expenditures	350,794	350,794
Other Financing Sources (Uses):		
Economic Development Bonds, Series 2002	-	-
Net change in fund balances	350,794	350,794
Fund balances at beginning of year	1,315,581	1,315,581
Fund balances at end of year	$ 1,666,375	$ 1,666,375

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$ 350,794
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays ($38,955) and debt principal payments ($0) is an increase to net assets.	38,955
The effect of a special item - contribution to a political subdivision, Galveston County Water Control and Improvement District No 8, water and sewer infrastructure improvements - is a transaction involving a capital asset that does not require the use of current fiscal resources and, therefore, is not reported as expenditures in governmental funds.	(187,043)
Proceeds from long-term debt provide current financial resources to governmental funds, but the issuing of debt increases long-term liabilities in the Statement of Net Assets	-
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 202,706

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

A. 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.

B. Basic Financial Statements

General

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

Government-Wide Statements:

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

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

Fund Financial Statements:

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

presented in these statements to the net assets and changes in net assets presented in the Government–Wide financial statements.

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 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.

D. Cash and Cash Equivalents

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

E. Investments

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

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

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

F. Receivables

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

G. 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:

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

H. Accounts Payable

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

I. Long-Term Obligations

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

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

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

J. Equity Classifications

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

- *Invested in capital asset* – Consists of capital assets including restricted capital assets, net of accumulated depreciation. No debt is related to the capital assets.

- *Restricted net assets* – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

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

- *Restricted Fund Balance* – Restricted fund balances are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

- *Committed Fund Balance* – Committed fund balance includes amounts that can only be used for the specific purposes determined by a formal action of the Corporation's highest level of decision-

making authority, the Board of Directors of the Corporation. Committed amounts cannot be used for any other purpose unless the Corporation Board of Directors removes the constraints by taking the same type of formal action that imposed the restraints originally (e.g., resolution, ordinance).

- *Assigned Fund Balance* – Assigned fund balances are amounts that are constrained by the Corporation's intent to be used for specific purposes, but are neither restricted nor committed. Decisions with regard to these amounts do not have to be made at the highest decision–making level. They may be made by a committee or other government official to which the Board delegates the authority. The constraints imposed by an assignment are more easily imposed and removed.

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

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

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

Deposits

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

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

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

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

Investments

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

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

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

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 derivates, commercial paper, or certificates of deposit.

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

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

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

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

LOGIC – The Economic Development Corporation is a participant in a Local Government Investment Cooperative (LOGIC) that has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Cooperative's governing body is a five-member board of directors comprised of individuals who are employees, officers, or elected officials of Participants in the Cooperative or who do not have a business relationship with the Cooperative and are qualified to advise. The Logic bylaws also permit a maximum of two advisory directors to serve in a non-voting advisory capacity. These advisory directors shall be employees or members of the firms providing managerial services to Logic. The Cooperative offers various investment alternatives for Texas Government Entities. Currently, the Board has authorized one portfolio, "LOGIC I," which is available to participants. The Corporation participates in the LOGIC I Portfolio which seeks preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. In order to comply with the Public Funds Investment Act, all portfolios will maintain a AAAm or equivalent rating from at lease one nationally recognized rating agency. The Logic Portfolio has been assigned a rating of AAAm by Standard & Poor's. An explanation of the significance of such ratings may be obtained from Standard & Poor's, 1221 Avenue of the Americas, New York, New York 10041.

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

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 Unites 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 lease one nationally recognized rating agency; and

5. Commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance that is rated A-1 or P-1 or equivalent by two nationally recognized rating agencies or that is rated A-1 or P-1 or equivalent by one nationally recognized rating agency and is fully secured

by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

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

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

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

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

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

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

NOTE 3 – RECEIVABLES

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

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

NOTE 4 – CAPITAL ASSETS

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

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

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

Capital asset balance of $222,928 was related to the following commitments (See Note 8):

Waterline Project on FM 1764 Between Avenue Q and FM 646 North	$ 178,873
Waterline Project on FM 1764 Between 3rd Street and Avenue S	44,055
Total	$ 222,928

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

NOTE 5 – LONG-TERM DEBT

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

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

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

NOTE 7 – RISK MANAGEMENT

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

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

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

NOTE 8 – COMMITMENTS & CONTINGENT LIABILITIES

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

The Economic Development Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on August 19, 2008 and renewed the agreement on

August 21, 2012. The Corporation will contribute funds for the construction, surveying, engineering, and related costs of relocating and adding water and sewer lines to FM 646, Texas State Highway 6, and FM 1764, not to exceed a total of one million dollars ($1,000,000). A total amount of $1,855 was contributed during the 2011-12 year, and a cumulative amount of $43,398 has been contributed as of September 30, 2012. The remaining amount of $956,602 will be contributed in future years. This amount has not been recorded in the 2011-12 year financial statements.

Jackson Street and Highway 6 Waterline Loop Project

The Economic Development Corporation approved the Jackson Street and Highway 6 Waterline Loop Project on August 18, 2009. The Corporation approved an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) on April 13, 2012. This agreement specifies that the Corporation and WCID No. 8 work together for water and sewer development in relation to the above approved project. The Corporation will pay for all construction and non-construction costs and enter into contracts with the engineer and construction contractor for the construction of the project. The Corporation will also be responsible for all costs associated with repairs and expenses of enforcement on the contractor's warranty, including the enforcement of such warranty against any construction bonding or surety companies, during the first year after completion and acceptance of the project.

After completion and acceptance of the improvements by the Corporation, they will be made available to WCID No8. for use as part of its facilities, along with any land acquisitions and/or right-of-way acquired by the Corporation necessary for the project. WCID No. 8 has agreed to assume full responsibility for the maintenance and operation of the project beginning one year after the completion of the project and its acceptance by the Corporation. Once the project is received by WCID No. 8, the Corporation ceases to bear any further costs or expenses whatsoever in connection with the project.

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

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

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

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

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

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

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

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

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

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

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

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

The Board of Directors of the Economic Development Corporation approved an interlocal agreement between the County of Galveston, the City of Santa Fe, and the Economic Development Corporation on June 7, 2012. The agreement terms specify that the Economic Development Corporation will advance $1,300,000 of funds to the City of Santa Fe to forward to the County of Galveston for the County to acquire right-of-ways, within the City limits of the City of Santa Fe, related to the FM 646 from FM 1764 to SH 6 project. The funds will be advanced in seven equal installments of $185,715 per installment starting June 30, 2012 through December 31, 2012. The County of Galveston has also entered into a contract with the Texas Department of Transportation (TxDot) in which TxDot will reimburse 90% to the County of eligible right-of-way acquisitions. At such time that the County has received the maximum amount of reimbursement it is entitled to receive from TxDot, it will reimburse the City of Santa Fe for forwarding to the Economic Development Corporation approximately 90% of the advanced funds or $1,170,000. TxDot does not

currently have any funds available to reimburse the County for this project and they make no assurances to the County of Galveston, the City of Santa Fe, or the Economic Development Corporation as to when such funds will become available. It could be several years before reimbursement funds from TxDot become available for ultimate return to the Economic Development Corporation. The September 30, 2012 financial statements have recorded $742,860 of advanced funds as an expenditure, and $668,574 (90% of $742,860) as an accounts receivable and revenue from the County of Galveston. The remaining amounts will be recorded in future years as the project continues.

Litigation

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

REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT 1

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable
	Original	Final	Amounts	(Unfavorable)
Revenues				
Taxes:				
Sales	$ 425,000	$ 435,000	$ 456,404	$ 21,404
Property owners' easement contribution	-	29,903	29,903	-
County of Galveston reimbursement	668,574	668,574	668,574	-
Interest income	3,300	4,521	4,521	-
Total revenues	1,096,874	1,137,998	1,159,402	21,404
Expenditures				
Current:				
General government administration	776,360	773,215	769,653	3,562
Capital outlay	137,135	38,955	38,955	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	913,495	812,170	808,608	3,562
Excess of revenues over (under) expenditures	183,379	325,828	350,794	24,966
Other Financing Sources (Uses):				
Economic Development Bonds, Series 2002	-	-	-	-
Appropriated fund balance	-	-	-	-
Net change in fund balances	183,379	325,828	350,794	24,966
Fund balances at beginning of year	1,315,581	1,315,581	1,315,581	-
Fund balances at end of year	$ 1,498,960	$ 1,641,409	$ 1,666,375	$ 24,966

See notes to required supplementary information.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2012

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The Economic Development Corporation follows the procedures described below in establishing the budgetary data reflected in the financial statements. These procedures are designed to provide guidance to the Board of Directors in exercising its budget responsibilities.

The bylaws of the Corporation establish the fiscal year as the twelve-month period beginning October 1. On or before October 1 of each year a proposed budget is presented to the Board of Directors. The Board will review and make appropriate changes to the proposed budget prior to adopting it. Upon adoption of the final budget by the Board of Directors it must be presented to the City of Santa Fe City Council for their approval. All amendments made to the original budget during the year must be approved by the Corporation Board of Directors and City of Santa Fe City Council.

The original budget was adopted by the Corporation's Board of Directors on August 22, 2011, and approved by the City Council of the City of Santa Fe on September 8, 2011. The original budget was properly amended by the Board of Directors on October 16, 2012, and the amendment approved by the City Council on November 8, 2012.

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. All annual appropriations lapse at fiscal year end.

The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results.

OTHER SUPPLEMENTARY INFORMATION

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SCHEDULE I

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
SEPTEMBER 30, 2012

Name	Address	Title	Term of Office, Appointed-Expires
Robert Cheek	3829 Avenue L, Santa Fe, TX 77510	President	06/14/11-06/14/13
Joe Carothers	4410 Castle Drive, Santa Fe, TX 77510	Vice President	06/14/11-06/14/13
Pat McCrary	3409 Avenue J, Santa Fe, Tx 77510	Secretary/Treasurer	06/14/11-06/14/13
Rosie Morales	12507 A-Bar Drive, Santa Fe, TX 77510	Board Member	06/14/11-06/14/13
Rusty Norman	4414 Burditt, Santa Fe, Tx 77510	Board Member	06/14/11-06/14/13
Ted Gillis	3025 Cemetery Rd., Santa Fe, TX 77510	Board Member	06/14/11-06/14/13
Ralph Stenzel	5518 FM 646S, Santa Fe, Tx 77510	Board Member	06/14/11-06/14/13
Joe Dickson City Manager City of Santa Fe	P. O. Box 950, Santa Fe, Tx 77510-0950	Ex-Officio Member	Not Applicable
Tim Turner General Manager WCID #8	P. O. Box 337, Santa Fe, Tx 77510-0337	Ex-Officio Member	Not Applicable

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