

**CITY OF SANTA FE
SECTION 4B ECONOMIC
DEVELOPMENT CORPORATION**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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, 2009**

TABLE OF CONTENTS

	Page
Introductory Section:	
List of Board of Directors and Ex-Officio Members	1
Financial Section:	
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
<i>Statement</i>	
<i>Government-wide Financial statements:</i>	
1 Statement of Net Assets	13
2 Statement of Activities	14
<i>Fund Financial Statements:</i>	
<i>Governmental Funds:</i>	
3 Balance Sheet	15
4 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
5 Statement of Revenues, Expenditures and Changes in Fund Balances	17
6 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Notes to Basic Financial Statements	19
Required Supplementary Information	
<i>Exhibit</i>	
1 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	30
Notes to Required Supplementary Information	31
Other Supplementary Information:	
<i>Schedule</i>	
1 Board of Directors and Ex-Officio Members	32

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INTRODUCTORY SECTION

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**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

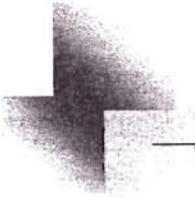
BOARD OF DIRECTORS

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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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, each major fund, and the aggregate remaining fund information 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, 2009, 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, each major fund, and the aggregate remaining fund information of the City of Santa Fe Section 4B Economic Development Corporation, as of September 30, 2009, 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.

The Management's Discussion and Analysis, on pages 4 through 12, and budgetary comparison information on pages 30 and 31, 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 an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The supplementary financial information included on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. They have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

May 26, 2010

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**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

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, 2009. 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, 2009 by \$894,928 (net assets) compared to \$494,053 (net assets) in the prior year. Of the amount of \$894,928, for the year ending September 30, 2009, \$894,928 may be used to continue construction of water and sewer infrastructure improvements in accordance with the Corporation's fund designation and fiscal policies. No investment in capital assets existed at September 30, 2009. The Corporation debt is not capital related.
- The Corporation's total net assets increased \$400,875 compared to an increase in the prior year of \$320,788. The increase over the prior year resulted mainly from a contribution of capital assets (\$75,640) to Galveston County Water Control and Improvement District No. 8 (per interlocal agreement) that did not occur in the current fiscal year.
- In contrast to the government-wide statements, the fund financial statements report a fund balance at year-end of \$1,540,236 an increase of \$226,820 in comparison to the prior year. This total amount may be used to continue construction of water and sewer infrastructure improvements.
- At September 30, 2009, sales tax revenues comprise 97.90% of General Fund revenues in the government-wide statements and in the governmental funds statement.
- The Corporation had no investment in capital assets as of September 30, 2009. The Corporation debt is not capital related. Please see further details in Note 3 of the Notes to Basic Financial Statements.
- The Corporation's long-term debt had a decrease of \$174,056. This decrease resulted from principal payments on the Economic Development Bonds, Series 2002. Please see further details in Note 4 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

**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009**

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 13 and 14 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.

**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009**

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 15 through 18 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 30 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 19 through 29.

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 30 and 31 of this report.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009

*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 \$894,928 at the close of the current fiscal year.

As shown in Table 1, for the current fiscal year 2009, approximately 100.00% 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	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 1,540,236	\$ 1,313,417
Capital assets	-	-
Total Assets	<u>1,540,236</u>	<u>1,313,417</u>
Current and other liabilities	-	-
Long-term liabilities	<u>645,308</u>	<u>819,364</u>
Total Liabilities	<u>645,308</u>	<u>819,364</u>
Net Assets:		
Invested in capital assets	-	-
Restricted	<u>894,928</u>	<u>494,053</u>
Total Net Assets	<u>\$ 894,928</u>	<u>\$ 494,053</u>

**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009**

Governmental type activities increased the Corporation's net assets by \$400,875 in the 2009 fiscal year. The key elements of this increase are as follows:

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
General revenues:		
Sales tax	\$ 489,192	\$ 449,111
Other	10,477	35,280
Total Revenues	<u>499,669</u>	<u>484,391</u>
Expenses:		
General government administration	59,018	39,172
Interest on long-term debt	39,776	48,791
Total Expenses	<u>98,794</u>	<u>87,963</u>
Excess (deficiency) before special items	400,875	396,428
Special items:		
Contribution to Political Subdivision	<u>-</u>	<u>(75,640)</u>
Increase(decrease) in net assets	400,875	320,788
Net assets - beginning	<u>494,053</u>	<u>173,265</u>
Net assets - ending	<u>\$ 894,928</u>	<u>\$ 494,053</u>

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, 2009, general revenues of \$499,669 exceeded Corporation expense of \$98,974 by \$400,875. Sales tax, the Corporation's largest revenue source, makes up approximately 97.9% of the total revenues and interest earnings make up 2.1%. Sales tax revenue was \$40,081 higher than the prior year but interest earnings were \$24,803 lower. The decrease in interest earnings was a direct result of a decline in the interest rates.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009

- Total expenses of \$98,794 are comprised mostly of general government administration expenses of \$59,018 and \$39,776 of interest payments on long-term debt. General government expenses were \$10,831 more than the prior year.
- Another significant expense the Corporation did not incur in the current fiscal year was the transfer of capital assets to a political subdivision, Galveston County Water Control and Improvement District No. 8. The interlocal agreement between both entities has been fulfilled and no further transfers per this agreement will be required.

***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, 2009, the general fund had a fund balance of \$1,540,236. A portion of the fund balance, \$717,912 has been reserved for future budget requirements and \$822,324 is unreserved but designated for infrastructure improvements. The General Fund's fund balance increased by \$226,820 during the current fiscal year. Included in this change in fund balance is \$489,192 of sales tax revenue, which represents approximately a 8.92% increase from the prior year. Also included in this amount is \$10,477 of interest income which represents approximately a 70.30% decrease from the prior year. The decrease in interest is a direct result of lower interest rates. The expenditures increased \$19,844 or 7.84% increase from the prior year. A contribution to Galveston County Water Control and Improvement District No. 8 (See Note 7) accounted for a majority of the increase.

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.

**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009**

- A net decrease in the revenue budget of \$21,000. This decrease was related to less interest income than originally anticipated.
- A net decrease in the budget for expenditures of \$1,000,000. This amount was to be contributed to Galveston County Water Control and Improvement District No. 8 per an interlocal agreement. This amount was not paid in the current fiscal year but will be paid in the year ending September 30, 2010.

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

- Actual General Fund Revenues of \$499,669 exceeded budgeted revenues of \$472,000 by \$27,669. This increase was the result of increased sales tax revenue of approximately \$29,192 and decreased interest income by \$1,523.
- General Fund actual amount expenditures of \$272,849 were less than final budgeted estimated expenditures of \$276,333 by \$3,484.
- The final budget estimated an increase in fund balance of \$195,667. Actual revenues exceeded actual expenditures by \$226,820. Therefore, fund balance was actually increased by \$31,153 more than the final budget amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Corporation did not have any investments in capital assets as of September 30, 2009 (See Note 3).

**Table 3
Capital Assets (Net of Accumulated Depreciation)**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Land-property owners easement contributions	\$ -	\$ -
Construction in progress	-	-
Total Capital Assets	-	-
Less: Accumulated depreciation	-	-
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ -</u>	<u>\$ -</u>

**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009**

Additional information on the Corporation's capital assets can be found in Note 3 of the Notes to Basic Financial Statements, on page 26 of this report.

Long-Term Debt

As of September 30, 2009, the Corporation had total debt outstanding of \$645,308. This represents the amount owed on the issuance of 1.9 million in Economic Development Bonds, Series 2002. The total amount of this debt is related to governmental activities, no business type activities exist in the Corporation.

**Table 4
Outstanding Debt**

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2008</u>
Economic Development Bonds, Series 2002	\$ 645,308	\$ 819,364

The decrease in outstanding debt of \$174,056 is the result of principal payments made on the bonds in the 2008-09 fiscal year.

Additional information on the Corporation's long-term debt can be found in Note 4 of the Notes to Basic Financial Statements, on page 26 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, 2009, and ending September 30, 2010, on September 8, 2009. 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 2009-2010 were:

- The amount of revenue available for appropriations is \$523,720. Economic factors are considered to be about the same as the prior year, therefore budgeted sales tax revenues make up 97.8% of the budgeted revenues. The total budgeted revenues of \$523,720 are a 10.9% increase from the final budgeted prior year revenues.
- The Corporation will use the above budgeted revenues to finance budgeted expenditures of \$1,241,632. This amount is a 349.3% increase from the final budgeted prior year expenditures. This increase is the result of an interlocal agreement with Galveston County Water Control and Improvement District No. 8 (WCID No. 8) in which the Corporation will contribute \$1,000,000 to the District for water and sewer infrastructure construction, improvements, and relocation (See Note 7).

**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
SEPTEMBER 30, 2009**

- If the budgeted estimates are realized, the Corporation's General Fund fund balance is expected to decrease by \$717,912.

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.

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BASIC FINANCIAL STATEMENTS

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CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

	<u>Governmental</u> <u>Activities</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents	\$ 2,360	\$ 2,360
Investments:		
Tex Pool	1,464,388	1,464,388
Receivables:		
Sales tax	73,488	73,488
Capital assets:		
Land	-	-
Construction in progress	-	-
	<u>1,540,236</u>	<u>1,540,236</u>
Total Assets		
LIABILITIES		
Accounts payable	-	-
Noncurrent liabilities:		
Due within one year	183,416	183,416
Due in more than one year	461,892	461,892
	<u>645,308</u>	<u>645,308</u>
Total Liabilities		
NET ASSETS		
Invested in capital assets	-	-
Restricted for:		
Future budget requirements	717,912	717,912
Infrastructure improvements	177,016	177,016
	<u>894,928</u>	<u>894,928</u>
Total Net Assets (Deficit)	<u>\$ 894,928</u>	<u>\$ 894,928</u>

See accompanying notes to basic financial statements.

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**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net assets
					Governmental Activities
Governmental Activities:					
General government administration	\$ 59,018	\$ -	\$ -	\$ -	\$ (59,018)
Interest on long-term debt	39,776	-	-	-	(39,776)
Total Governmental Activities	<u>\$ 98,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(98,794)</u>
General Revenues:					
Taxes:					
Sales					489,192
Investment earnings					10,477
Special item:					
Contribution to Political Subdivision - Galveston County Water Control					
Improvement District No. 8 - water and sewer infrastructure improvements					-
Total General Revenues and Special Item					<u>499,669</u>
Change in Net Assets					400,875
Net Assets at Beginning of Year					<u>494,053</u>
Net Assets at End of Year					<u>\$ 894,928</u>

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 2,360	\$ 2,360
Investments:		
Tex Pool	1,464,388	1,464,388
Receivables:		
Sales tax	<u>73,488</u>	<u>73,488</u>
Total Assets	<u>\$ 1,540,236</u>	<u>\$ 1,540,236</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	<u>\$ -</u>	<u>\$ -</u>
Fund Balances:		
Reserved for:		
Future budget requirements	717,912	717,912
Unreserved:		
Designated for infrastructure improvements	<u>822,324</u>	<u>822,324</u>
	<u>1,540,236</u>	<u>1,540,236</u>
Total Liabilities and Fund Balances	<u>\$ 1,540,236</u>	<u>\$ 1,540,236</u>

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, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,540,236
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds (See Note 3).	-
Long-term liabilities are not payable in the current period and therefore are not reported in the governmental funds (See Note 4).	<u>(645,308)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 894,928</u>

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, 2009

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Taxes:		
Sales	\$ 489,192	\$ 489,192
Property owners' easement contribution	-	-
Interest income	<u>10,477</u>	<u>10,477</u>
Total revenues	<u>499,669</u>	<u>499,669</u>
Expenditures		
Current:		
General government administration	59,017	59,017
Capital outlay	-	-
Debt service:		
Principal	174,056	174,056
Interest	<u>39,776</u>	<u>39,776</u>
Total expenditures	<u>272,849</u>	<u>272,849</u>
Excess of revenues over (under) expenditures	226,820	226,820
Other Financing Sources (Uses):		
Economic Development Bonds, Series 2002	<u>-</u>	<u>-</u>
Net change in fund balances	226,820	226,820
Fund balances at beginning of year	<u>1,313,416</u>	<u>1,313,416</u>
Fund balances at end of year	<u>\$ 1,540,236</u>	<u>\$ 1,540,236</u>

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, 2009

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 226,820
<p>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 (\$0) and debt principal payments (\$174,056) is an increase to net assets.</p>	
	174,056
<p>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.</p>	
	-
<p>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</p>	
	-
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 400,876</u>

See accompanying notes to basic financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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.

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.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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 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.

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:

<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

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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. 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.

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, 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, 2009, 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.

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

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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.

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, 2009:

- 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 \$2,360 (all considered cash and cash equivalents) and the bank balance was \$5,975. The total bank balance is covered by \$250,000 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

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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 \$1,464,388 invested in TexPool as of September 30, 2009, at a .812% 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.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009 was as follows:

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

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

NOTE 4 – LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2009 was as follows:

	Beginning Balance October 1	Additions	Payments	Ending Balance September 30	Due Within One Year
Governmental Activities					
Economic Development Bonds, Series 2002	\$ 819,364	\$ -	\$ 174,056	\$ 645,308	\$ 183,416

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

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, 2009:

	Economic Development Bonds Series 2002	
Year Ended September 30:		
2010	\$	213,832
2011		213,832
2012		213,832
2013		65,828
2014 and future		-
 Total principal and interest		 707,324
 Less: Amount representing interest		 (62,016)
 Total future principal payments	 \$	 645,308

NOTE 5 – 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, 2009, no amounts were reported as interfund receivables, payables, or transfers in the government-wide or governmental fund financial statements.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

NOTE 6 – 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 2,648 Texas municipalities and other governmental units as of September 30, 2009. 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, 2009, the City paid net premiums of approximately \$50,454 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 7 – COMMITMENTS & CONTINGENT LIABILITIES

Interlocal Agreement

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, consulting, and related costs of certain public water and sewer 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). A total amount of \$34,982 was contributed during the 2008-09 year to fulfill the Corporation’s commitment per the interlocal agreement. The Corporation will also 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 646, not to exceed a total of one million dollars (\$1,000,000). This amount has not been paid or recorded in the 2008-09 year financial statements but has been appropriated in the 2009-10 Economic Development Corporation budget.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
SEPTEMBER 30, 2009

Litigation

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

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF SANTA FE
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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes:				
Sales	\$ 460,000	\$ 460,000	\$ 489,192	\$ 29,192
Property owners' easement contribution	-	-	-	-
Interest income	<u>33,000</u>	<u>12,000</u>	<u>10,477</u>	<u>(1,523)</u>
Total revenues	<u>493,000</u>	<u>472,000</u>	<u>499,669</u>	<u>27,669</u>
Expenditures				
Current:				
General government administration	1,062,500	62,500	59,017	3,483
Capital outlay	-	-	-	-
Debt service:				
Principal	159,892	159,892	174,056	(14,164)
Interest	<u>53,941</u>	<u>53,941</u>	<u>39,776</u>	<u>14,165</u>
Total expenditures	<u>1,276,333</u>	<u>276,333</u>	<u>272,849</u>	<u>3,484</u>
Excess of revenues over (under) expenditures	(783,333)	195,667	226,820	31,153
Other Financing Sources (Uses):				
Economic Development Bonds, Series 2002	-	-	-	-
Appropriated fund balance	<u>783,333</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	195,667	226,820	31,153
Fund balances at beginning of year	<u>1,313,416</u>	<u>1,313,416</u>	<u>1,313,416</u>	<u>-</u>
Fund balances at end of year	<u>\$ 1,313,416</u>	<u>\$ 1,509,083</u>	<u>\$ 1,540,236</u>	<u>\$ 31,153</u>

See notes to required supplementary information.

CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2009

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 Board of Directors, on September 9, 2008, and approved by the City of Santa Fe City Council on September 25, 2008. The original budget was properly amended by the Board of Directors on September 8, 2009, and the amendment approved by the City of Santa Fe City Council on September 24, 2009.

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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**CITY OF SANTA FE
SECTION 4B ECONOMIC DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
SEPTEMBER 30, 2009**

<u>Name</u>	<u>Address</u>	<u>Title</u>	<u>Term of Office, Appointed-Expires</u>
Robert Cheek	3829 Avenue L, Santa Fe, TX 77510	President	06/14/09-06/14/11
Joe Carothers	4410 Castle Drive, Santa Fe, TX 77510	Vice President	06/14/09-06/14/11
Pat McCrary	3409 Avenue J, Santa Fe, Tx 77510	Secretary/Treasurer	06/14/09-06/14/11
Rosie Morales	12507 A-Bar Drive, Santa Fe, TX 77510	Board Member	06/14/09-06/14/11
Rusty Norman	4414 Burditt, Santa Fe, Tx 77510	Board Member	06/14/09-06/14/11
Ted Gillis	3025 Cemetery Rd., Santa Fe, TX 77510	Board Member	06/14/09-06/14/11
Ralph Stenzel	5518 FM 646S, Santa Fe, Tx 77510	Board Member	06/14/09-06/14/11
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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