

CITY OF CASTROVILLE, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2017**





CITY OF CASTROVILLE
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

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CITY OF CASTROVILLE

PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

TIM KELLEY

MAYOR PRO-TEM

ERIC CHERRY

CITY COUNCIL

PAUL CAREY

PHIL KING

PHYLLIS SANTLEBEN

VICTOR ORTIZ, JR.

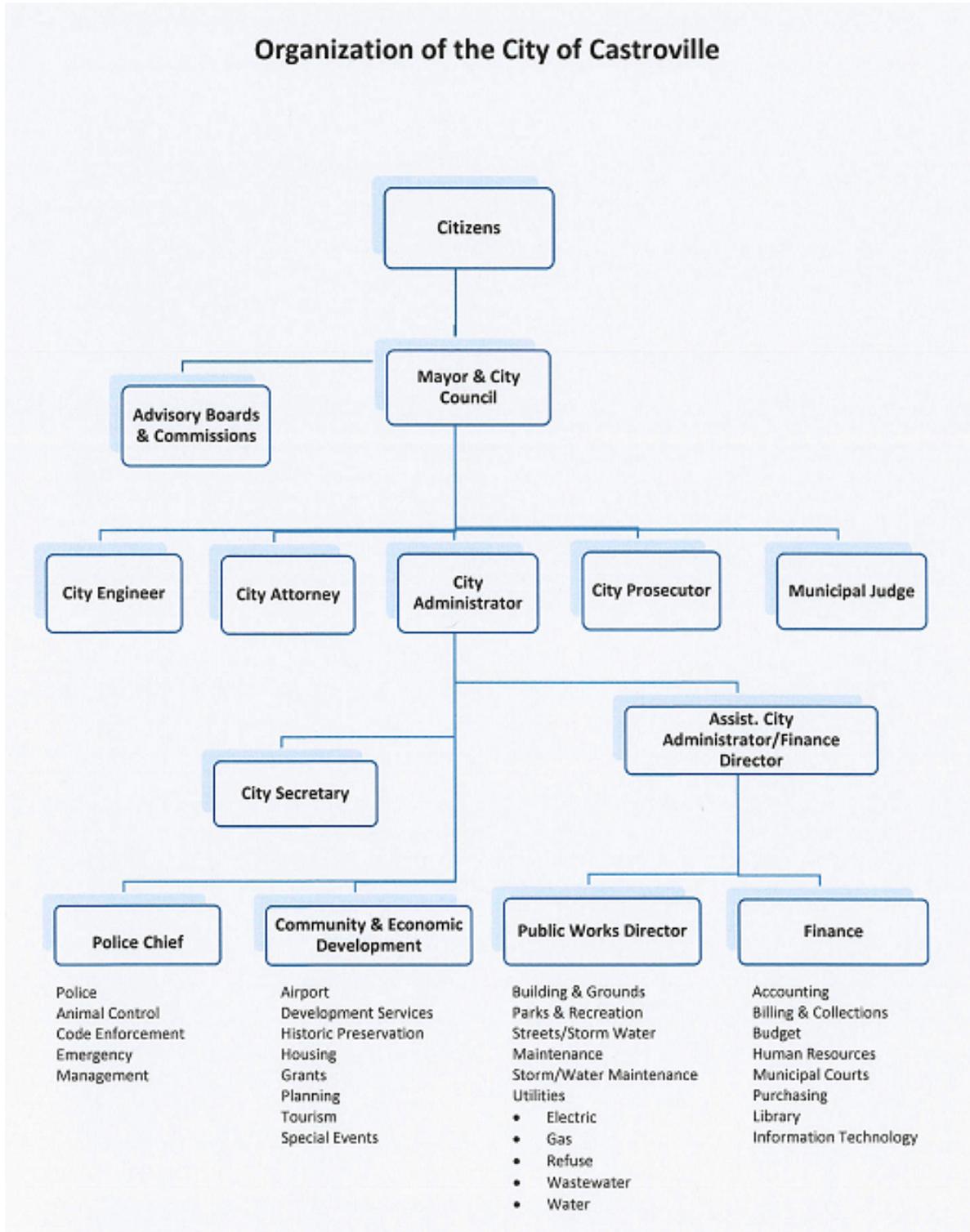
CITY ADMINISTRATOR

MARIE GELLES

ATTORNEY

DENTON, NAVARRO, ROCHA, BERNAL & ZECH

CITY OF CASTROVILLE
ORGANIZATIONAL CHART





INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Castroville

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Castroville, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Castroville, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and schedule of changes – net pension liability and related ratios as identified in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), 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 regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Castroville's financial statements as a whole. The supplementary information (comparative statements and combining statements) and the schedule of expenditures of federal awards required by the audit requirements of Title I U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information and the schedule of expenditures of federal awards have 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 supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018 on our consideration of City of Castroville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Castroville's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

March 22, 2018



MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the City of Castroville’s annual financial report presents our discussion and analysis of the City’s financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

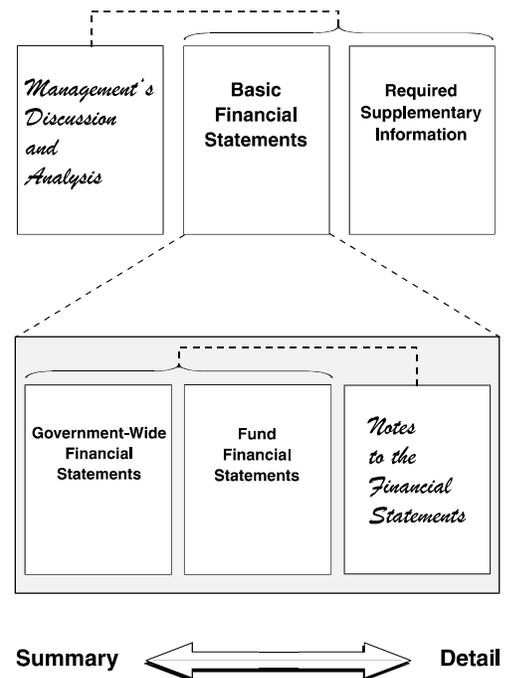
- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows by \$20.1 million (total net position) at September 30, 2017. Of this amount, \$3.1 million (unrestricted net position) may be used to meet the City’s ongoing obligations to citizens and creditors.
- During the year, the City’s total net position increased by \$1.7 million.
- As of September 30, 2017, the City’s governmental funds reported a combined ending fund balances of \$2.0 million, an increase of \$182 thousand from the prior year.
- The City obtained total additional financing in the current year of \$2.5 million through bonds, capital lease, and tax notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1, Required Components of the City’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
Fund Statements			
<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the city that are not proprietary or fiduciary	Activities the City operates similar to private businesses: water and sewer
<i>Required financial statements</i>	• Statement of net position	• Balance Sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances.

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

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

Both of the government-wide financial statements distinguish functions of the City 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 City include general administration, public safety, public works and park maintenance. The business-type activities of the City include a Utility fund and an Airport fund.

The government-wide financial statements can be found on pages 14-17 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into two categories: governmental and proprietary.

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, governmental fund financial statements focus on near-term inflows and outflows 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 financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for 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 governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all governmental funds. A budgetary comparison schedule has been provided as supplementary information to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found beginning on page 18 of this report.

Proprietary funds: The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Utility and Airport activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Utility fund, the Airport fund and the Utility Capital Projects fund, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found beginning on page 23 of this report.

Notes to the 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 the financial statements can be found beginning on page 28 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's adopted budget and the City's progress in funding its obligation to provide pension benefits to its employees. The required supplementary information related to the budget and pension benefits can be found beginning on page 53 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds can be found beginning on pages 61 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$20.1 million at the close of fiscal year 2017.

By far the largest portion of the City's net position (79%) reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table provides a summary of the City's net assets at September 30, 2017 (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2017 - 2016
	2017	2016	2017	2016	2017	2016	
<i>Assets:</i>							
Current and Other Assets	\$ 2,218,460	\$ 2,047,176	\$ 5,576,894	\$ 5,491,566	\$ 7,795,354	\$ 7,538,742	3.4
Restricted Assets	-	-	9,748,679	15,498,516	9,748,679	15,498,516	(37.1)
Capital Assets (net)	1,917,326	1,983,388	23,165,628	12,054,698	25,082,954	14,038,086	78.7
<i>Total Assets</i>	<u>4,135,786</u>	<u>4,030,564</u>	<u>38,491,201</u>	<u>33,044,780</u>	<u>42,626,987</u>	<u>37,075,344</u>	15.0
<i>Deferred Outflows:</i>							
Deferred Charge on Refunding	31,648	35,165	7,853	8,726	39,501	43,891	(10.0)
Deferred Pension Related	220,940	291,083	120,397	135,383	341,337	426,466	(20.0)
<i>Total Deferred Outflows</i>	<u>252,588</u>	<u>326,248</u>	<u>128,250</u>	<u>144,109</u>	<u>380,838</u>	<u>470,357</u>	(19.0)
<i>Liabilities:</i>							
Current Liabilities	342,422	359,751	4,216,955	1,685,251	4,559,377	2,045,002	123.0
Long-Term Liabilities	1,418,278	1,590,630	16,973,873	15,478,402	18,392,151	17,069,032	7.8
<i>Total Liabilities</i>	<u>1,760,700</u>	<u>1,950,381</u>	<u>21,190,828</u>	<u>17,163,653</u>	<u>22,951,528</u>	<u>19,114,034</u>	20.1
<i>Deferred Inflows:</i>							
Deferred Pension Related	3,438	55,061	1,873	25,609	5,311	80,670	(93.4)
<i>Total Deferred Inflows</i>	<u>3,438</u>	<u>55,061</u>	<u>1,873</u>	<u>25,609</u>	<u>5,311</u>	<u>80,670</u>	(93.4)
<i>Net Position:</i>							
Net Investment in							
Capital Assets	862,230	777,082	15,025,877	11,257,872	15,888,107	12,034,954	32.0
Restricted	100,222	83,381	880,613	743,938	980,835	827,319	18.6
Unrestricted	1,661,784	1,490,907	1,520,260	3,997,817	3,182,044	5,488,724	(42.0)
<i>Total Net Position</i>	<u>\$ 2,624,236</u>	<u>\$ 2,351,370</u>	<u>\$ 17,426,750</u>	<u>\$ 15,999,627</u>	<u>\$ 20,050,986</u>	<u>\$ 18,350,997</u>	9.3

An additional portion of the City's net position \$981 thousand (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$3.1 million (16%) may be used to meet the government's ongoing obligations to citizens and creditors.

Change in Net Position: The City's net position increased \$1.7 million. (See Table A-2.)

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2017 - 2016
	2017	2016	2017	2016	2017	2016	
<i>Program Revenues:</i>							
Charges for Services	\$ 581,741	\$ 622,771	\$ 7,799,657	\$ 6,770,406	\$ 8,381,398	\$ 7,393,177	13.4
Operating Grants and Contributions	42,797	1,155	45,223	29,608	88,020	30,763	186.1
Capital Grants and Contributions	-	-	-	-	-	-	0.0
<i>General Revenues:</i>							
Taxes	1,815,175	1,711,837	-	-	1,815,175	1,711,837	6.0
Interest Earnings	6,572	6,161	31,253	16,018	37,825	22,179	70.5
Miscellaneous	100,888	67,118	-	-	100,888	67,118	50.3
TOTAL REVENUES	2,547,173	2,409,042	7,876,133	6,816,032	10,423,306	9,225,074	13.0
<i>Program Expenditures:</i>							
General Administration	897,696	1,018,598	-	-	897,696	1,018,598	(11.9)
Public Safety	1,161,609	1,161,911	-	-	1,161,609	1,161,911	(0.0)
Public Transportation	462,891	355,600	-	-	462,891	355,600	30.2
Culture and Recreation	596,766	502,833	-	-	596,766	502,833	18.7
Interest in Debt	33,692	36,792	-	-	33,692	36,792	(8.4)
Utility	-	-	5,007,665	4,883,994	5,007,665	4,883,994	2.5
Airport	-	-	562,998	557,670	562,998	557,670	1.0
TOTAL EXPENSES	3,152,654	3,075,734	5,570,663	5,441,664	8,723,317	8,517,398	2.4
Transfers	878,347	879,732	(878,347)	(879,732)	-	-	0.0
Increase (Decrease) in Net Position after Transfers	\$ 272,866	\$ 213,040	\$ 1,427,123	\$ 494,636	\$ 1,699,989	\$ 707,676	140.2

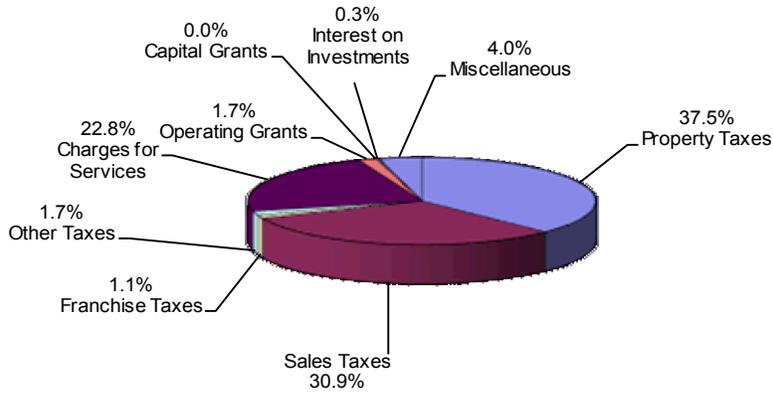
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities for fiscal year 2017.

Governmental Activities

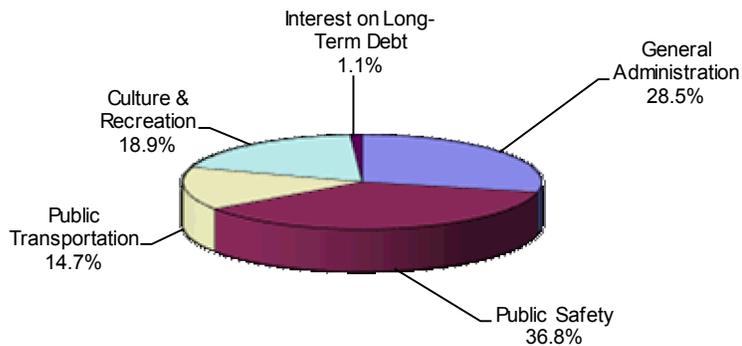
- Property taxes increased \$80 thousand over the previous year.
- Sales taxes increased \$27 thousand over the previous year.

Governmental activities showed a decrease of \$605 thousand before transfers from business-type activities. The business-type activities transferred \$878 thousand to governmental activities resulting in an increase in net position of \$273 thousand.

2017 Governmental Revenues



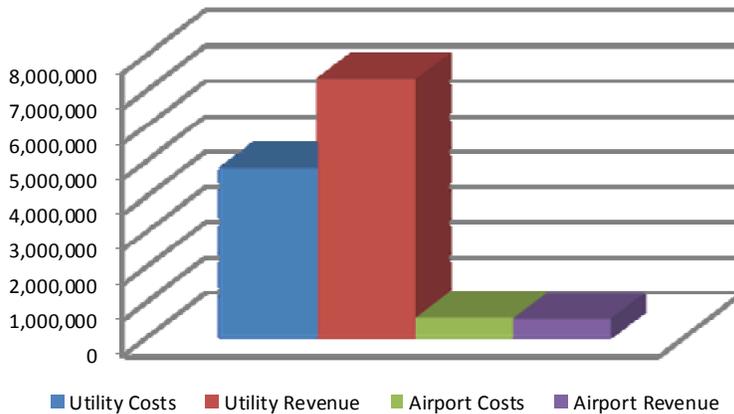
2017 Governmental Function Expenses



Business-Type Activities

Business-type activities increased the City’s net position by \$1.4 million after transfers to governmental activities of \$878 thousand. This increase is partially attributed to the increased charges for services for utilities.

Business-Type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2.0 million. Of this total amount, \$34 thousand is considered nonspendable, \$104 thousand is restricted by constraints imposed by external providers such as grantors and enabling legislation, \$261 thousand is committed and reported in special revenue and capital improvement funds, and \$1.6 million is unassigned in the governmental funds. The unassigned fund balance is the amount available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$1.6 million. The City's general fund balance showed an increase of \$215 thousand during the year. This is attributed to increases in property taxes, sales tax, and miscellaneous revenue.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The unrestricted net position of the Utility Fund at the end of the year amounted to \$1.2 million. The increase in net position was \$1.5 million. This increase is attributable to an increase in utility rates. Unrestricted net position of the Airport Fund at the end of the year amounted to \$280 thousand. The decrease in net position was \$36 thousand. This decrease is attributable to increased depreciation expense at the airport. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

There was one budget amendment that increased approved expenditures by \$53 thousand from the original budget to the final budget. The general fund expenditures were under budget by \$787 thousand as a result of cost containment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2017, the City had invested \$25.1 million in a broad range of capital assets, including land, buildings and improvements, equipment and vehicles, and infrastructure (See Table A-3.). This amount represents a net increase (including additions and deductions) of \$11.0 million or 78.7% over last year. The increase is due to costs incurred on projects related to the waste water treatment plant expansion, the East Side lift station improvements, and the water line replacement. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Table A-3
City's Capital Assets
(in thousands dollars)

	Governmental		Business-Type		Total		Total
	Activities		Activities				Percentage
	2017	2016	2017	2016	2017	2016	Change
Land	\$ 105	\$ 105	\$ 2,297	\$ 1,549	\$ 2,402	\$ 1,654	45.2
Construction in Progress	-	-	11,417	1,476	11,417	1,476	673.5
Water Rights	-	-	176	127	176	127	38.6
Buildings and Improvements	589	589	6,497	6,497	7,086	7,086	0.0
Vehicles and Equipment	953	929	1,399	1,152	2,352	2,081	13.0
Infrastructure	1,814	1,814	9,264	8,732	11,078	10,546	5.0
Totals at Historical Cost	3,461	3,437	31,050	19,533	34,511	22,970	50.2
Total Accumulated Depreciation	(1,544)	(1,454)	(7,884)	(7,479)	(9,428)	(8,933)	5.5
Net Capital Assets	\$ 1,917	\$ 1,983	\$ 23,166	\$ 12,054	\$ 25,083	\$ 14,037	78.7

Long Term Debt

At year-end the City had \$18.7 million in bonds and notes outstanding as shown in Table A-4. More detailed information about the City's debt is presented in the notes to the financial statements. The City's S&P rating was upgraded to AA Stable.

Table A-4
City's Long-Term Debt
(in thousands dollars)

	Governmental		Business-Type		Total		Total
	Activities		Activities				Percentage
	2017	2016	2017	2016	2017	2016	Change
Bonds Payable	\$ 1,035	\$ 1,184	\$ 250	\$ 286	\$ 1,285	\$ 1,470	(12.6)
Notes Payable	-	-	871	87	871	87	901.1
Capital Lease Payable	-	-	66	-	66	-	100.0
TWDB Bonds Payable	-	-	16,435	15,590	16,435	15,590	5.4
Total Long-Term Debt	\$ 1,035	\$ 1,184	\$ 17,622	\$ 15,963	\$ 18,657	\$ 17,147	8.8

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues are expected to increase significantly with the anticipated growth of new commercial development along the Hwy 90 corridor.
- A new Walmart retail store, an auto parts store and one new restaurant opened in 2016 adding more than 300 new jobs.
- The City anticipates an increase in new home development in fiscal year 2018, providing additional property tax and utility revenues to the City.
- The Westheim Village subdivision is adding 43 new homes. Half of these residences have been constructed and permitting and construction on the remaining lots is forthcoming.
- A small assisted living facility is under construction that will accommodate 16 residents.
- The City issued bonds and received funding from the Texas Water Development Board's State Revolving Fund program for below market interest loans for the construction of infrastructure improvements. The improvements include the construction of a new East Side Lift Station with construction expected to be completed in 2018. The water line replacement project, which replaced undersized and leaking water lines, will be completed early in fiscal year 2018. The expansion of the Wastewater treatment plant will be substantially completed in May, 2018. These initiative will provide infrastructure for anticipated future growth and development.
- TxDOT approved grant funding for the City's airport to construct a Jet Fuel Farm increasing the capital investment at the Airport. It is anticipated to be completed during March of 2018.
- There was no property tax rate increase for fiscal year 2018.
- Utility rates remained the same as fiscal year 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Department, 1209 Fiorella, Castroville, Texas, 78009. Telephone No. (830) 931-4070.



BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 2,012,234	\$ 4,625,041	\$ 6,637,275
Receivables (net of allowances for uncollectibles)			
Ad Valorem Taxes	13,368	-	13,368
Sales & Mixed Beverage Taxes	127,755	-	127,755
Other	14,288	852,266	866,554
Prepaid Items	23,000	-	23,000
Inventory	10,960	116,442	127,402
Internal Balances	16,855	(16,855)	-
Restricted Assets:			
Cash and Investments	-	3,587,563	3,587,563
Investments Held in Escrow	-	6,161,116	6,161,116
Capital Assets:			
Land	105,330	2,297,441	2,402,771
Construction in Progress	-	11,416,555	11,416,555
Water Rights	-	176,126	176,126
Building and Improvements	588,965	6,497,311	7,086,276
Vehicles and Equipment	953,232	1,398,516	2,351,748
Infrastructure	1,814,385	9,264,061	11,078,446
Accumulated Depreciation	(1,544,586)	(7,884,382)	(9,428,968)
TOTAL ASSETS	<u>4,135,786</u>	<u>38,491,201</u>	<u>42,626,987</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	31,648	7,853	39,501
Deferred Pension Related Outflows	220,940	120,397	341,337
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 252,588</u>	<u>\$ 128,250</u>	<u>\$ 380,838</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 117,335	\$ 3,095,190	\$ 3,212,525
Accrued Expenses	61,699	3,170	64,869
Accrued Interest Payable	4,661	31,320	35,981
Unearned Revenue	-	2,600	2,600
<i>Payable from Restricted Assets:</i>			
Customer Deposits	-	169,288	169,288
<i>Noncurrent Liabilities:</i>			
Due within One Year	158,727	915,387	1,074,114
Due in more than One Year	983,314	16,736,848	17,720,162
Net Pension Liability	434,964	237,025	671,989
TOTAL LIABILITIES	<u>1,760,700</u>	<u>21,190,828</u>	<u>22,951,528</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	3,438	1,873	5,311
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,438</u>	<u>1,873</u>	<u>5,311</u>
NET POSITION			
Net Investment in Capital Assets	862,230	15,025,877	15,888,107
Restricted	100,222	880,613	980,835
Unrestricted	1,661,784	1,520,260	3,182,044
TOTAL NET POSITION	<u>\$ 2,624,236</u>	<u>\$ 17,426,750</u>	<u>\$ 20,050,986</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
<i>Governmental Activities:</i>				
General Administration	\$ 897,696	\$ 86,353	\$ 41,643	\$ -
Public Safety	1,161,609	204,230	1,154	-
Public Transportation	462,891	111,254	-	-
Culture and Recreation	596,766	179,904	-	-
Interest on Long-term Debt	33,692	-	-	-
<i>Total Governmental Activities</i>	<u>3,152,654</u>	<u>581,741</u>	<u>42,797</u>	<u>-</u>
<i>Business-Type Activities</i>				
Utility	5,007,665	7,313,615	-	-
Airport	562,998	486,042	45,223	-
<i>Total Business-Type Activities</i>	<u>5,570,663</u>	<u>7,799,657</u>	<u>45,223</u>	<u>-</u>
Total Primary Government	<u>\$ 8,723,317</u>	<u>\$ 8,381,398</u>	<u>\$ 88,020</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Sales Taxes				
Franchise Taxes				
Other Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Transfers				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position
Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (769,700)	\$ -	\$ (769,700)
(956,225)	-	(956,225)
(351,637)	-	(351,637)
(416,862)	-	(416,862)
(33,692)	-	(33,692)
<u>(2,528,116)</u>	<u>-</u>	<u>(2,528,116)</u>
-	2,305,950	2,305,950
-	(31,733)	(31,733)
-	<u>2,274,217</u>	<u>2,274,217</u>
<u>(2,528,116)</u>	<u>2,274,217</u>	<u>(253,899)</u>
955,879	-	955,879
789,766	-	789,766
27,408	-	27,408
42,122	-	42,122
6,572	31,253	37,825
100,888	-	100,888
<u>1,922,635</u>	<u>31,253</u>	<u>1,953,888</u>
<u>878,347</u>	<u>(878,347)</u>	<u>-</u>
272,866	1,427,123	1,699,989
<u>2,351,370</u>	<u>15,999,627</u>	<u>18,350,997</u>
<u>\$ 2,624,236</u>	<u>\$ 17,426,750</u>	<u>\$ 20,050,986</u>

CITY OF CASTROVILLE
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,656,776	\$ 355,458	\$ 2,012,234
Receivables (net of allowance):			
Property Taxes	12,232	1,136	13,368
Sales & Mixed Beverage Taxes	127,755	-	127,755
Other Receivables	5,191	9,097	14,288
Due from Other Funds	15,333	7,409	22,742
Prepaid Items	23,000	-	23,000
Inventory	10,960	-	10,960
	<u>1,851,247</u>	<u>373,100</u>	<u>2,224,347</u>
TOTAL ASSETS			
	<u>\$ 1,851,247</u>	<u>\$ 373,100</u>	<u>\$ 2,224,347</u>
LIABILITIES, DEFERRED INFLOWS OF OF RESOURCES, AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ 116,434	\$ 901	\$ 117,335
Accrued Expenditures	61,699	-	61,699
Due to Other Funds	52	5,835	5,887
<i>Total Liabilities</i>	<u>178,185</u>	<u>6,736</u>	<u>184,921</u>
<i>Deferred Inflows of Resources:</i>			
Unavailable Revenues	12,232	1,136	13,368
Future Sales Tax Revenues	67,324	-	67,324
<i>Total Deferred Inflows of Resources</i>	<u>79,556</u>	<u>1,136</u>	<u>80,692</u>
<i>Fund Balances:</i>			
Nonspendable	33,960	-	33,960
Restricted	-	103,747	103,747
Committed	-	261,481	261,481
Unassigned	1,559,546	-	1,559,546
<i>Total Fund Balances</i>	<u>1,593,506</u>	<u>365,228</u>	<u>1,958,734</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, & FUND BALANCES			
	<u>\$ 1,851,247</u>	<u>\$ 373,100</u>	<u>\$ 2,224,347</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 1,958,734

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,917,326

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 80,692

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.

Accrued Vacation Leave Payable	(55,297)	
Deferred Charge on Refunding	31,648	
Bonds Payable	<u>(1,086,744)</u>	(1,110,393)

Net pension liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.

Net Pension Liability	(434,964)	
Pension Related Deferred Outflows	220,940	
Pension Related Deferred Inflows	<u>(3,438)</u>	(217,462)

Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds. (4,661)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 2,624,236

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Ad Valorem Taxes	\$ 867,785	\$ 84,461	\$ 952,246
Sales Taxes	783,069	-	783,069
Franchise Fees	27,408	-	27,408
Other Taxes	3,990	38,132	42,122
Licenses and Permits	78,689	-	78,689
Charges for Services	187,568	119,199	306,767
Fines and Forfeitures	196,284	-	196,284
Intergovernmental Revenue	41,643	1,154	42,797
Interest Income	5,134	1,438	6,572
Miscellaneous	54,008	12,379	66,387
TOTAL REVENUES	2,245,578	256,763	2,502,341
EXPENDITURES			
<i>Current:</i>			
General Administration			
City Administration	204,781	58,671	263,452
Finance	222,416	-	222,416
City Council	30,462	-	30,462
City Secretary	107,068	-	107,068
Information Technology	65,969	-	65,969
Human Resources	73,773	-	73,773
Economic Development	41,449	-	41,449
Non-Departmental	56,987	-	56,987
Public Safety			
Animal Control	57,313	-	57,313
Community Development	264,036	-	264,036
Municipal Court	85,981	3,702	89,683
Police Department	727,514	5,452	732,966
Public Transportation			
Streets	411,486	33	411,519
Culture and Recreation			
Library	185,208	4,053	189,261
Parks	214,385	-	214,385
Pool	117,273	-	117,273
<i>Capital Outlay</i>	134,863	-	134,863
<i>Debt Service:</i>			
Principal	-	149,000	149,000
Interest and Fiscal Charges	-	36,400	36,400
TOTAL EXPENDITURES	3,000,964	257,311	3,258,275
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$ (755,386)	\$ (548)	\$ (755,934)

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 932,611	\$ 137,806	\$ 1,070,417
Transfers Out	(21,223)	(170,847)	(192,070)
Proceeds from Sale of Assets	59,372	-	59,372
TOTAL OTHER FINANCING SOURCES (USES)	<u>970,760</u>	<u>(33,041)</u>	<u>937,719</u>
 Net Change in Fund Balance	 215,374	 (33,589)	 181,785
 Fund Balances at Beginning of Year	 <u>1,378,132</u>	 <u>398,817</u>	 <u>1,776,949</u>
 Fund Balances at End of Year	 <u>\$ 1,593,506</u>	 <u>\$ 365,228</u>	 <u>\$ 1,958,734</u>

See accompanying notes to basic financial statements.



CITY OF CASTROVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$	181,785
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>			
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays.</p>			(41,191)
<p>In the Statement of Activities, only the gain or loss on the disposal of a capital asset is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of disposed assets.</p>			(24,871)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>			10,330
<p>The issuance of long-term debt (e.g. bonds, leases,) provides current financial resources to governmental funds, which the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any affect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>			
Principal Repayments on Bonds	149,000		
Amortization of Deferred Charges & Premiums	2,210		151,210
<p>Governmental funds report required contributions to employee pensions as expenditures. However, in the Statement of Activities the cost of the pension is recorded based on the actuarially determined cost of the plan. This is the amount that the actuarially determined pension expense exceeded contributions.</p>			(21,533)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>			
Change in Compensated Absences	16,639		
Change in Accrued Interest	497		17,136
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		\$	272,866

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2017

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
ASSETS			
<i>Current Assets:</i>			
Cash and Investments	\$ 4,328,849	\$ 296,192	\$ 4,625,041
Receivables (net of allowance)	814,667	37,599	852,266
Due from Other Funds	52,989	-	52,989
Inventory	96,067	20,375	116,442
<i>Total Current Assets</i>	<u>5,292,572</u>	<u>354,166</u>	<u>5,646,738</u>
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	3,587,563	-	3,587,563
Investments Held in Escrow	6,161,116	-	6,161,116
<i>Total Restricted Assets</i>	<u>9,748,679</u>	<u>-</u>	<u>9,748,679</u>
<i>Non-Current Assets:</i>			
Capital Assets, Net of Accumulated			
Depreciation	14,940,603	8,225,025	23,165,628
<i>Total Non-Current Assets</i>	<u>14,940,603</u>	<u>8,225,025</u>	<u>23,165,628</u>
TOTAL ASSETS	<u>29,981,854</u>	<u>8,579,191</u>	<u>38,561,045</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	-	7,853	7,853
Deferred Pension Related Outflows	120,397	-	120,397
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 120,397</u>	<u>\$ 7,853</u>	<u>\$ 128,250</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION – PROPRIETARY FUND (CONTINUED)
SEPTEMBER 30, 2017

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 3,088,168	\$ 7,022	\$ 3,095,190
Accrued Expenses	3,170	-	3,170
Due to Other Funds	10,069	59,775	69,844
Accrued Interest Payable	29,455	1,865	31,320
Unearned Revenue	-	2,600	2,600
Current Portion of Long Term Debt	840,000	75,387	915,387
<i>Total Current Liabilities</i>	<u>3,970,862</u>	<u>146,649</u>	<u>4,117,511</u>
<i>Liabilities Payable from Restricted Assets:</i>			
Customer Deposits	169,288	-	169,288
<i>Non-Current Liabilities:</i>			
Compensated Absences	14,845	2,741	17,586
Net Pension Liability	237,025	-	237,025
Long-Term Debt	16,400,000	319,262	16,719,262
<i>Total Non-Current Liabilities</i>	<u>16,651,870</u>	<u>322,003</u>	<u>16,973,873</u>
TOTAL LIABILITIES	<u>20,792,020</u>	<u>468,652</u>	<u>21,260,672</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	1,873	-	1,873
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,873</u>	<u>-</u>	<u>1,873</u>
NET POSITION			
Net Investment in Capital Assets	7,187,648	7,838,229	15,025,877
Restricted	880,613	-	880,613
Unrestricted	1,240,097	280,163	1,520,260
TOTAL NET POSITION	<u>\$ 9,308,358</u>	<u>\$ 8,118,392</u>	<u>\$ 17,426,750</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
OPERATING REVENUES			
Charges for Services	\$ 7,238,917	\$ 473,889	\$ 7,712,806
Fines and Forfeitures	71,719	940	72,659
Operating Grants	-	45,223	45,223
Miscellaneous Revenues	2,979	11,213	14,192
TOTAL OPERATING REVENUES	<u>7,313,615</u>	<u>531,265</u>	<u>7,844,880</u>
OPERATING EXPENSES			
Personnel Services	786,529	85,407	871,936
Supplies	12,670	2,200	14,870
Other Services and Charges	1,119,827	256,583	1,376,410
Electric Purchases	2,104,769	-	2,104,769
Gas Purchases	137,232	-	137,232
Sanitation Services	429,045	-	429,045
Depreciation and Amortization	192,390	213,168	405,558
TOTAL OPERATING EXPENSES	<u>4,782,462</u>	<u>557,358</u>	<u>5,339,820</u>
OPERATING INCOME (LOSS)	<u>2,531,153</u>	<u>(26,093)</u>	<u>2,505,060</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	30,608	645	31,253
Interest and Fiscal Charges	(152,257)	(5,640)	(157,897)
Bond Issue Costs	(72,946)	-	(72,946)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(194,595)</u>	<u>(4,995)</u>	<u>(199,590)</u>
Net Income (Loss) Before Transfers	2,336,558	(31,088)	2,305,470
Transfers Out	(873,347)	(5,000)	(878,347)
	<u>(873,347)</u>	<u>(5,000)</u>	<u>(878,347)</u>
CHANGE IN NET POSITION	1,463,211	(36,088)	1,427,123
NET POSITION AT BEGINNING OF YEAR	<u>7,845,147</u>	<u>8,154,480</u>	<u>15,999,627</u>
NET POSITION AT END OF YEAR	<u>\$ 9,308,358</u>	<u>\$ 8,118,392</u>	<u>\$ 17,426,750</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
Cash Flows From Operating Activities:			
Cash Received From Customers	\$ 7,189,655	\$ 510,276	\$ 7,699,931
Cash Paid to Employee Wages & Benefits	(756,078)	(84,760)	(840,838)
Cash Paid to Suppliers for Goods and Services	(1,492,534)	(269,037)	(1,761,571)
Net Cash Provided (Used) by Operating Activities	4,941,043	156,479	5,097,522
Cash Flows From Noncapital Financing Activities:			
Interfund Payables	(83,931)	58,158	(25,773)
Transfer (to) from Other Funds	(873,347)	(5,000)	(878,347)
Net Cash Provided (Used) by Noncapital Financing Activities	(957,278)	53,158	(904,120)
Cash Flows From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(11,336,488)	(180,000)	(11,516,488)
Proceeds from Long-Term Debt	2,435,000	80,000	2,515,000
Retirement of Long-Term Debt	(785,000)	(70,736)	(855,736)
Interest and Fiscal Charges (Paid) Received	(167,005)	(6,661)	(173,666)
Bond Issue Costs	(72,946)	-	(72,946)
Net Cash Provided (Used) by Capital and Related Financing Activities	(9,926,439)	(177,397)	(10,103,836)
Cash Flows From Investing Activities:			
Investment Interest Received	30,608	645	31,253
Net Cash Provided (Used) by Investing Activities	30,608	645	31,253
Net Increase (Decrease) in Cash and Cash Equivalents	(5,912,066)	32,885	(5,879,181)
Cash and Investments at Beginning of Year:			
Cash and Investments	4,491,078	263,307	4,754,385
Restricted Cash and Investments	15,498,516	-	15,498,516
	<u>19,989,594</u>	<u>263,307</u>	<u>20,252,901</u>
Cash and Investments at End of Year:			
Cash and Investments	4,328,849	296,192	4,625,041
Restricted Cash and Investments	9,748,679	-	9,748,679
	<u>\$ 14,077,528</u>	<u>\$ 296,192</u>	<u>\$ 14,373,720</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 2,531,153	\$ (26,093)	\$ 2,505,060
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	192,390	213,168	405,558
(Increase) Decrease in Operating Assets:			
Accounts Receivable	(133,438)	(20,989)	(154,427)
Inventory	(26,143)	(8,329)	(34,472)
Increase (Decrease) in Current Liabilities:			
Accounts Payable	2,337,152	(1,925)	2,335,227
Customer Deposits	9,478	-	9,478
Compensated Absences	3,076	647	3,723
Net Pension Liability and Related Deferred Inflows and Outflows	27,375	-	27,375
Total Adjustments to Reconcile Operating Activities	<u>2,409,890</u>	<u>182,572</u>	<u>2,592,462</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,941,043</u>	<u>\$ 156,479</u>	<u>\$ 5,097,522</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Castroville, Texas (“City”), was incorporated in 1948. The City operates under a general law, Mayor-Council type of government, and provides the following services: public safety (law enforcement), public transportation (streets), culture, recreation, water, sewer, electricity, natural gas, sanitation, airport hangar leases and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the City has no component units.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of activities reflects the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if collected within 30 days of the end of the current fiscal period.

Property taxes, franchise taxes, sales tax, occupancy tax, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property and sales taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public transportation, culture and recreation, capital acquisition, and debt service.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Nonmajor funds include special revenue funds, debt service fund, and capital improvement fund.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows.

Proprietary Funds are accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The City reports the following major proprietary funds:

The Utility Fund accounts for the activities of the City's water, sewer, gas and electric operations.

The Airport Fund accounts for the activities of the City's airport operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d).

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. INVESTMENTS (Continued)

Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City has all its monies in interest bearing checking accounts, savings accounts, government investment pools, and certificates of deposit. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair market value except for certificates of deposit which are carried at amortized cost.

The City reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2016 and past due after January 31, 2017. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

Revenues for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are billable services for certain contracts and billable services for the City's water utilities, sewer services, and solid waste management. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts. The allowances for uncollectible property taxes and utility customer accounts as of September 30, 2017 are \$17,858 and \$29,572, respectively.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

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 fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds represented long term interfund receivables/payables that had an agreement for the repayment of funds.

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. INVENTORY

Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenses in the proprietary fund types when used.

9. RESTRICTED ASSETS

Certain resources are set aside for customer meter deposits. Deposits are classified as restricted assets on the balance sheet because they may be refunded at a point in time if the customer is in good standing with the water/sewer department.

Part of the agreement for bond proceeds from the Texas Water Development Board required reserve funds to be kept in a restricted bank account to serve as collateral. These funds are shown as Investments Held in Escrow under the section of Restricted Assets on the Statement of Net Position.

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sewer, sidewalks, curbs and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset	Estimated Life
Buildings and Improvements	7 to 50 years
Machinery and Equipment	5 to 35 years
Infrastructure	5 to 50 years

11. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under the modified accrual basis of accounting. Unavailable revenues from property tax are deferred and recognized as an inflow of resource in the period the amounts become available.

12. UNEARNED REVENUE

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue. The City's collection of future hanger lease payments as of September 30, 2017 is shown as Unearned Revenue.

13. COMPENSATED ABSENCES

Employees earn vacation leave at varying rates depending on length of service: 10 days leave for each year from year 1 through 5 (not available for use until first six months of service is completed), an additional 7 days for each year from year 6 through 9, and an additional 3 days for each year from year 10 through 14, and an additional 5 days per year for each year of service thereafter up to a maximum of 20 days per year. Annual leave exceeding 40 days will not be carried over, except with City Administrator approval.

Employees earn sick leave at the rate of 3.69 hours per pay period starting ninety days after the date of employment. No sick leave days are paid when an employee leaves city employment and no liability is reported for unpaid sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

14. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are amortized over the life of the bond.

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

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. PENSIONS

The net pension (asset) liability, deferred inflows and outflows of resources related to pensions, pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable, in accordance with the benefit terms. Investments are reported at fair value.

16. FUND EQUITY

Fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted – Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed – Represents amounts that can only be used for the specific purposes determined by a formal action of the government's highest level of decision making authority. The governing council is the highest level of decision making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned – Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council is the only entity that may make assignments at this time as the Council has not designated any other individuals with the authority to make assignments.

Unassigned – Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, and assigned third.

17. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

19. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for water and sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

20. USE OF ESTIMATES

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

NOTE B -- DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Deposits

At September 30, 2017, the carrying amount of the City's cash on hand was \$1,220, the carrying amount of deposits in bank was \$9,591,273, and the bank balance was \$9,865,638. The bank balance was covered by federal deposit insurance at Castroville State Bank for \$250,000 as well as the City's depository had pledged securities having a face value of \$14,814,940 and market value of \$14,380,317 as collateral for the City's deposits. All of the City's cash was fully collateralized.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

2. Investments (Continued)

for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (“Act”) requires an annual audit of investment practices. The Act requires that the Council review the investment policy at least annually, investment officers obtain minimum investment training, and investment officers sign quarterly investment reports submitted to Council. Audit procedures in this area, conducted as part of the basic financial statements, disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act in all material respects. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City’s investment policy further prioritizes investments as: (1) safety, (2) liquidity, (3) public trust, and (4) yield. The City’s investments at September 30, 2017 were \$632,345 invested in certificates of deposit. The certificates of deposit were fully collateralized.

	Reported Value	Fair Value	Weighted Average Maturity (Days)
Certificates of Deposit	\$ 632,345	\$ 632,345	176
Held in Escrow:			
Invesco Govt and Agency			
Investment Fund	6,161,116	6,161,116	34
Total Other Receivables	\$ 6,793,461	\$ 6,793,461	47

All investments are valued using prices quoted in active markets (Level 1 inputs).

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

3. Analysis of Specific Deposit and Investment Risks (Continued)

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

c. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City had exposure to concentration of credit risk as \$6,161,116 was held at a single financial institution as this represents the amounts held in escrow by the Texas Water Development Board in the City's name.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

4. Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

5. Held in Escrow

The amount of funds approved by the Texas Water Development Board but not yet drawn down by the City is held in escrow by the Texas Water Development Board in the City's name. The amount held in escrow as of September 30, 2017 was \$6,161,116.

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Medina County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2016, upon which the fiscal 2017 levy was based, was \$152,407,357 (i.e., market value less exemptions). The estimated market value was \$203,363,167, making the taxable value 74.9% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2017, was \$0.523233 per \$100 of assessed value, which means that the City has a tax margin of \$1.976767 for each \$100 value and could increase its annual tax levy by approximately \$3,012,738 based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate.

NOTE D -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2017 are as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Utility Fund</u>	<u>Airport Fund</u>	<u>Total</u>
Occupancy Tax	\$ -	\$ 9,097	\$ -	\$ -	\$ 9,097
Customer Receivables, Net of Allowance for Uncollectibles	-	-	814,667	37,599	852,266
Miscellaneous	5,191	-	-	-	5,191
Total Other Receivables	<u>\$ 5,191</u>	<u>\$ 9,097</u>	<u>\$ 814,667</u>	<u>\$ 37,599</u>	<u>\$ 866,554</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE E -- INTERFUND RECEIVABLE/PAYABLE AND TRANSFERS

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, and service debt. As of September 30, 2017, the following balances were due between funds:

Receivable Fund	Payable Fund	Amount	Reason
General Fund	Utility Fund	\$ 2,712	Reimbursement for Costs
General Fund	Airport Fund	6,786	Reimbursement for Costs
General Fund	Nonmajor Governmental Fund	5,835	Reimbursement for Costs
Utility Fund	Airport Fund	52,989	Reimbursement for Costs
Nonmajor Governmental Fund	General Fund	52	Reimbursement for Costs
Nonmajor Governmental Fund	Utility Fund	7,357	Reimbursement for Costs
		<u>\$ 75,731</u>	

Transfers during the year ended September 30, 2017, were as follows:

Transfer In	Transfers Out	Amount	Purpose
General Fund	Utility Fund	\$ 847,747	Supplement Funding
General Fund	Airport Fund	5,000	Supplement Funding
General Fund	Nonmajor Governmental Fund	79,864	Supplement Funding
Nonmajor Governmental Fund	General Fund	21,223	Supplement Funding
Nonmajor Governmental Fund	Nonmajor Governmental Fund	90,983	Supplement Funding
Nonmajor Governmental Fund	Utility Fund	25,600	Supplement Funding
		<u>\$ 1,070,417</u>	

NOTE F -- CAPITAL ASSETS

<i>Governmental Activities</i>	Balance 10/1/2016	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2017
Land	\$ 105,330	\$ -	\$ -	\$ 105,330
Buildings and Improvements	588,965	-	-	588,965
Vehicles and Equipment	929,202	80,261	(56,231)	953,232
Infrastructure	1,814,385	-	-	1,814,385
	<u>3,437,882</u>	<u>80,261</u>	<u>(56,231)</u>	<u>3,461,912</u>
Less Accumulated Depreciation				
Buildings and Improvements	(250,498)	(20,679)	-	(271,177)
Vehicles and Equipment	(709,611)	(66,678)	31,360	(744,929)
Infrastructure	(494,385)	(34,095)	-	(528,480)
	<u>(1,454,494)</u>	<u>(121,452)</u>	<u>31,360</u>	<u>(1,544,586)</u>
Governmental Capital Assets, Net	<u>\$ 1,983,388</u>	<u>\$ (41,191)</u>	<u>\$ (24,871)</u>	<u>\$ 1,917,326</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE F -- CAPITAL ASSETS (Continued)

Capital asset activity for the year ended September 30, 2017, was as follows:

<u>Business-Type Activities</u>	Balance 10/1/2016	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2017
Land	\$ 1,548,522	\$ 748,919	\$ -	\$ 2,297,441
Construction in Progress	1,476,059	10,472,616	(532,120)	11,416,555
Water Rights	127,386	48,740	-	176,126
Buildings and Improvements	6,497,311	-	-	6,497,311
Vehicles and Equipment	1,152,303	246,213	-	1,398,516
Infrastructure	8,731,941	532,120	-	9,264,061
	<u>19,533,522</u>	<u>12,048,608</u>	<u>(532,120)</u>	<u>31,050,010</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,594,361)	(135,354)	-	(1,729,715)
Vehicles and Equipment	(827,640)	(80,331)	-	(907,971)
Infrastructure	(5,056,823)	(189,873)	-	(5,246,696)
	<u>(7,478,824)</u>	<u>(405,558)</u>	<u>-</u>	<u>(7,884,382)</u>
Business-Type Capital Assets, Net	<u>\$ 12,054,698</u>	<u>\$ 11,643,050</u>	<u>\$ (532,120)</u>	<u>\$ 23,165,628</u>

Land, Construction in Progress, and Water Rights are not depreciated.

Depreciation expense was charged to the functions as follows:

Governmental Activities:

General Administration	\$ 26,340
Public Safety	31,869
Public Transportation	47,634
Culture and Recreation	15,609
Total Depreciation Expense - Governmental Activities	<u>\$ 121,452</u>

Business-Type Activities:

Utility	\$ 192,390
Airport	213,168
Total Depreciation Expense - Business-Type Activities	<u>\$ 405,558</u>

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017

NOTE G -- LONG-TERM DEBT

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments include general obligation bonds, certificates of obligation, tax notes, and capital leases. These debt obligations are secured by either future property tax revenue or future revenue from charges for services.

A summary of the general obligation debt is as follows:

Issue Amount	Maturity	Interest Rate	Balance
General Obligation Refunding Bonds:			
2012 Series	2026	2.0 - 3.0%	<u>\$ 1,285,000</u>

The City issued General Obligation Refunding Bonds, Series 2012 on October 30, 2012 in the amount of \$2,020,000 to advance refund 1) General Obligation Refunding Bonds, Series 2004 in the amount of \$200,000; 2) Certificates of Obligation, Series 2003 in the amount of \$960,000; and 3) Certificates of Obligation, Series 2004 in the amount of \$860,000. The net proceeds of \$2,081,415 (including premiums of \$100,023 and after payment of underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The advance refunding was undertaken to result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$252,963.

The City entered into a loan agreement with the Texas Department of Transportation in January 2004 to borrow the sum of \$278,748 for the construction of aviation T-hangers at the airport. The loan is due and payable with 15 annual payments of \$23,350, which include interest at 3%. The final maturity of the loan is May 15, 2020.

In 2012, the City received a federal award of a note through the Texas Water Development Board to fund improvements to the City's water and waste water lines. As of September 30, 2017, the City has drawn \$285,590 and \$375,000, respectively of the total \$350,000 and \$375,000, respectively available. Interest rates vary from .05% - 1.22% and .08% - 1.52%, respectively.

In 2015, the City received an additional federal award of a note through the Texas Water Development Board to fund improvements to the City's water and waste water lines in the amount of \$15,600,000 as well as additional funding of \$1,500,000 in 2017. As of September 30, 2017, the City has drawn \$411,037, \$1,733,557, \$8,727,807 and \$133,290, respectively of the total \$3,050,000, \$3,500,000, \$9,050,000, and \$1,500,000 respectively available. Interest rates vary from 0% - 1.8%, 0% - 1.5%, 0% - 1.75%, and 0.06% - 1.42%, respectively.

The City issued tax notes in October 2016 for \$935,000 for purchase of land and water rights. The notes are due and payable over seven years. Interest rates vary from 0.85% - 1.4%.

Details about these financings are as follows in the changes in long-term debt and annual requirements.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE G -- LONG-TERM DEBT (Continued)

Changes in Long-Term Debt

	Balance 9/30/2016	Additions	Reductions	Balance 9/30/2017	Due Within One Year
<i>Governmental Activities:</i>					
2012 Refunding Bonds	\$ 1,184,200	\$ -	\$ (149,000)	\$ 1,035,200	\$ 153,000
2012 Premium on Bonds	57,271	-	(5,727)	51,544	5,727
Compensated Absences	71,936	-	(16,639)	55,297	-
<i>Total Governmental Activities</i>	<u>1,313,407</u>	<u>-</u>	<u>(171,366)</u>	<u>1,142,041</u>	<u>158,727</u>
<i>Business-Type Activities:</i>					
2012 Refunding Bonds	285,800	-	(36,000)	249,800	37,000
2012 Premium on Bonds	14,212	-	(1,421)	12,791	1,421
TXDOT Note	86,794	-	(20,746)	66,048	21,366
Capital Lease - Jet Refueler	-	80,000	(13,990)	66,010	15,600
TWDB - DWSRF	245,000	-	(35,000)	210,000	35,000
TWDB - DWSRF - Construction	3,435,000	-	(170,000)	3,265,000	170,000
TWDB - CWSRF	270,000	-	(35,000)	235,000	35,000
TWDB - CWSRF - Construction	2,895,000	-	(145,000)	2,750,000	145,000
Series 2015 Revenue Bonds	8,745,000	-	(270,000)	8,475,000	275,000
TWDB - CWSRF - Additional	-	1,500,000	-	1,500,000	50,000
Series 2016 Tax Notes	-	935,000	(130,000)	805,000	130,000
Compensated Absences	13,863	3,723	-	17,586	-
<i>Total Business-Type Activities</i>	<u>15,990,669</u>	<u>2,518,723</u>	<u>(857,157)</u>	<u>17,652,235</u>	<u>915,387</u>
Total Primary Government	<u><u>\$ 17,304,076</u></u>	<u><u>\$ 2,518,723</u></u>	<u><u>\$ (1,028,523)</u></u>	<u><u>\$ 18,794,276</u></u>	<u><u>\$ 1,074,114</u></u>

The total deferred charges remaining on the refunding is \$39,501 as of September 30, 2017 and is shown on the Statement of Net Position as a deferred outflow of resources.

Annual requirements to amortize all bonded debt outstanding as of September 30, 2017 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 153,000	\$ 27,968	\$ 180,968
2019	157,000	24,905	181,905
2020	128,900	21,762	150,662
2021	128,900	17,893	146,793
2022	132,900	14,024	146,924
2023 - 2026	334,500	21,883	356,383
	<u><u>\$ 1,035,200</u></u>	<u><u>\$ 128,435</u></u>	<u><u>\$ 1,163,635</u></u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE G -- LONG-TERM DEBT (Continued)

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 898,366	\$ 187,196	\$ 1,085,562
2019	895,010	186,151	1,081,161
2020	893,772	182,898	1,076,670
2021	871,100	178,980	1,050,080
2022	872,100	175,091	1,047,191
2023 - 2027	3,535,500	792,096	4,327,596
2028 - 2032	3,400,000	626,106	4,026,106
2033 - 2037	2,890,000	388,110	3,278,110
2038 - 2042	1,945,000	209,898	2,154,898
2043 - 2047	1,355,000	49,814	1,404,814
	<u>\$ 17,555,848</u>	<u>\$ 2,976,340</u>	<u>\$ 20,532,188</u>

The City leased a used fuel truck in October 2016. The lease has an effective interest rate of 2.29% and a bargain purchase option of \$1 upon maturity. Future minimum lease payments are as follows:

Year Ending September 30,	Lease Payments
2018	\$ 16,949
2019	16,949
2020	16,949
2021	16,949
2022	1,412
	<u>69,208</u>
Less: Interest Amount	<u>(3,198)</u>
	<u>\$ 66,010</u>

The following is an analysis of the equipment under capital lease as of September 30, 2017:

Transportation & Equipment	\$ 80,000
Less: Accumulated Depreciation	(14,667)
Net Leased Property	<u>\$ 65,333</u>

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS

Texas Municipal Retirement System

1. Plan Description

The City participates, as one of 872 plans, in the nontraditional, joint-contributory, hybrid-defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the City are required to participate in the TMRS retirement system.

2. Benefits Provided

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

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

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

	2016
Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	54
Active employees	43
	127

3. Contributions

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

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

3. Contributions (Continued)

For the year ending September 30, 2017, employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.07% and 9.17% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$168,611, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) or Asset was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

5. Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary Increases	3.0% per year
Investment Rate of Return*	6.75%

*Presented net of pension plan investment expense, including inflation.

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

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2017

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

5. Actuarial Assumptions (Continued)

method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation.

In determining their best estimated of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	100.00%	

6. Discount Rate

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

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

7. Discount Rate Sensitivity Analysis

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability	\$ 1,439,772	\$ 671,989	\$ 54,727

8. Pension Plan Fiduciary Net Position

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

9. Changes in Net Pension Liability

The below schedule presents the changes in the Net Pension Liability (Asset) as of December 31, 2016:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at December 31, 2015	\$ 4,971,412	\$ 4,338,562	\$ 632,850
Changes for the year:			
Service Cost	222,617	-	222,617
Interest	334,854	-	334,854
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	29,527	-	29,527
Changes of Assumptions	-	-	-
Contributions - Employer	-	166,452	(166,452)
Contributions - Employee	-	91,865	(91,865)
Net Investment Income	-	293,031	(293,031)
Benefit Payments, Including Refunds of Employee Contributions	(243,830)	(243,830)	-
Administrative Expense	-	(3,311)	3,311
Other Changes	-	(178)	178
Net Changes	343,168	304,029	39,139
Balance at December 31, 2016	\$ 5,314,580	\$ 4,642,591	\$ 671,989

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

10. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized a pension expense of \$220,904. Also, as of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ 5,311
Changes in Actuarial Assumptions	11,244	-
Differences between Projected and Actual Investment Earnings	200,341	-
Contributions Subsequent to the Measurement Date	129,752	-
	\$ 341,337	\$ 5,311

Deferred outflows of resources in the amount of \$129,752 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the year ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year ended December 31,	
2017	\$ 69,343
2018	77,212
2019	59,753
2020	(34)
	\$ 206,274

11. Other Post-Employment Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

11. Other Post-Employment Benefits (Continued)

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure the adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended September 30, 2017, 2016, and 2015 were \$5,573, \$5,111, and \$3,699, respectively, which equaled the required contributions each year.

NOTE I -- FUND BALANCE

The City reported fund balance designations at September 30, 2017 as follows:

Fund Balance Designation	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:			
Debt Service	\$ -	\$ 47,096	\$ 47,096
Tourism	-	20,176	20,176
Library	-	1,994	1,994
Police Training and Operations	-	6,596	6,596
Court Security & Technology	-	27,885	27,885
Total Restricted Fund Balance	-	103,747	103,747
Committed for:			
Drainage Projects	-	230,941	230,941
Facilities Maintenance	-	30,540	30,540
Total Committed Fund Balance	-	261,481	261,481
Unassigned	1,559,546	-	1,559,546
Total Fund Balance	<u>\$ 1,559,546</u>	<u>\$ 365,228</u>	<u>\$ 1,924,774</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE J -- RESTRICTED NET POSITION

The City reported restricted net position at September 30, 2017 as follows:

Net Position Restricted for:	Governmental Activities	Business-type Activities	Total Restricted Net Position
Debt Service	\$ 43,571	\$ -	\$ 43,571
Tourism	20,176	-	20,176
Library	1,994	-	1,994
Police Training and Operations	6,596	-	6,596
Court Security	27,885	-	27,885
Water Acquisition	-	388,542	388,542
Capital Improvements	-	492,071	492,071
			-
Total Restricted Net Position	<u>\$ 100,222</u>	<u>\$ 880,613</u>	<u>\$ 980,835</u>

NOTE K -- COMMITMENTS AND CONTINGENCIES

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

Construction Commitments

The City has entered into construction and engineering contracts for the following projects. Estimated future commitments associated with these contracts as of September 30, 2017 are as follows:

Commitment	Estimated Project Cost to City	Expended to Date	Estimated Future Commitment
Engineering Fees	\$ 1,154,475	\$ 952,074	\$ 202,401
Testing & Inspection Fees	364,000	128,720	235,280
Water Line Replacement	2,169,354	1,822,807	346,547
WWTP Capacity Expansion	9,279,580	6,601,596	2,677,984
Eastside Liftstation	1,703,023	1,054,442	648,581
Roof Replacement	47,634	-	47,634
	<u>\$ 14,718,066</u>	<u>\$ 10,559,639</u>	<u>\$ 4,158,427</u>

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE K -- COMMITMENTS AND CONTINGENCIES (Continued)

Utility Capital Projects

During the year ended September 30, 2013 and 2016, the Texas Water Development Board (TWDB) awarded the City financial assistance in the amount of \$375,000 and \$3,050,000, respectively, from the Clean Water State Revolving Fund (CWSRF), for improvements to the East Side Sanitary Lift Station. Both loans were identified as TWDB Project No. 73646. As of September 30, 2017, the City had \$103,600 and \$1,751,685, respectively, of remaining funds available.

During the year ended September 30, 2013 and 2016, the Texas Water Development Board (TWDB) awarded the City financial assistance in the amount of \$350,000 and \$3,500,000, respectively, from the Drinking Water State Revolving Fund (DWSRF), for improvements to the Water Line Replacement. Both loans were identified as TWDB Project No. 62534. As of September 30, 2017, the City had \$83,382 and \$1,339,614, respectively, of remaining funds available.

During the year ended September 30, 2016 and 2017, the Texas Water Development Board (TWDB) awarded the City financial assistance in the amount of \$9,050,000 and \$1,500,000, respectively, from the Clean Water State Revolving Fund (CWSRF), for improvements and expansion of the Wastewater Treatment Plant. Both loans were identified as TWDB Project No. 73707. As of September 30, 2017, the City had \$2,063,522 and \$1,426,254, respectively, of remaining funds available.

NOTE L -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to \$3,000,000. Annual contributions for the year ended September 30, 2017 were \$94,834 for property and casualty and workers compensation coverage.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Changes – Net Pension Liability and Related Ratios



CITY OF CASTROVILLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2017
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budget Amounts		Actual Amounts	Variance	2016
	Original	Final		Favorable (Unfavorable)	
REVENUES					
Ad Valorem Taxes	\$ 878,184	\$ 878,184	\$ 867,785	\$ (10,399)	\$ 792,065
Sales Taxes	814,408	814,408	783,069	(31,339)	758,697
Franchise Fees	26,676	26,676	27,408	732	26,356
Other Taxes	3,200	3,200	3,990	790	3,242
Licenses and Permits	90,000	90,000	78,689	(11,311)	132,724
Charges for Services	184,595	184,595	187,568	2,973	164,996
Fines and Forfeitures	222,559	222,559	196,284	(26,275)	211,544
Intergovernmental Revenue	50,000	50,000	41,643	(8,357)	-
Interest Income	4,000	4,000	5,134	1,134	4,406
Miscellaneous	25,413	25,413	54,008	28,595	64,905
TOTAL REVENUES	<u>2,299,035</u>	<u>2,299,035</u>	<u>2,245,578</u>	<u>(53,457)</u>	<u>2,158,935</u>
EXPENDITURES					
<i>Current:</i>					
General Administration					
City Administration	332,425	332,425	204,781	127,644	141,290
Finance	278,841	278,841	222,416	56,425	235,820
City Council	51,205	51,205	30,462	20,743	32,380
City Secretary	115,960	115,960	107,068	8,892	98,327
Information Technology	86,564	92,367	65,969	26,398	70,516
Human Resources	81,032	81,032	73,773	7,259	64,403
Economic Development	58,948	58,948	41,449	17,499	61,467
Non-Departmental	260,306	260,306	56,987	203,319	218,686
Public Safety					
Animal Control	62,263	62,263	57,313	4,950	55,656
Community Development	260,691	260,691	264,036	(3,345)	247,818
Municipal Court	103,974	103,974	85,981	17,993	88,257
Police Department	762,410	763,836	727,514	36,322	749,580
Public Transportation					
Streets	670,294	670,294	411,486	258,808	320,065
Culture and Recreation					
Library	197,155	197,155	185,208	11,947	180,535
Parks	216,499	216,499	214,385	2,114	197,003
Pool	101,093	101,093	117,273	(16,180)	112,637
<i>Capital Outlay</i>	96,816	142,761	134,863	7,898	114,028
TOTAL EXPENDITURES	<u>3,736,476</u>	<u>3,789,650</u>	<u>3,000,964</u>	<u>788,686</u>	<u>2,988,468</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (1,437,441)</u>	<u>\$ (1,490,615)</u>	<u>\$ (755,386)</u>	<u>\$ 735,229</u>	<u>\$ (829,533)</u>

CITY OF CASTROVILLE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2017
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budget Amounts		Actual Amounts	Variance	2016
	Original	Final		Favorable (Unfavorable)	
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ 932,553	\$ 932,553	\$ 932,611	\$ 58	\$ 919,747
Transfers Out	(22,155)	(22,155)	(21,223)	932	(21,223)
Proceeds from Sale of Assets	2,000	2,000	59,372	57,372	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>912,398</u>	<u>912,398</u>	<u>970,760</u>	<u>58,362</u>	<u>898,524</u>
Net Change in Fund Balance	(525,043)	(578,217)	215,374	793,591	68,991
Fund Balance - Beginning of Year	<u>1,378,132</u>	<u>1,378,132</u>	<u>1,378,132</u>	-	<u>1,309,141</u>
Fund Balance - End of Year	<u>\$ 853,089</u>	<u>\$ 799,915</u>	<u>\$ 1,593,506</u>	<u>\$ 793,591</u>	<u>\$ 1,378,132</u>

CITY OF CASTROVILLE
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
SEPTEMBER 30, 2017

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund and Debt Service Funds.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

CITY OF CASTROVILLE
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS
LAST THREE CALENDAR YEARS

Total Pension Liability			
	2014	2015	2016
Service Cost	\$ 162,880	\$ 193,289	\$ 222,617
Interest (on the Total Pension Liability)	314,941	330,968	334,854
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	(47,315)	(112,683)	29,527
Changes of Assumptions	-	52,240	-
Benefit Payments, Including Refunds of Employee Contributions	(185,781)	(247,734)	(243,830)
Net Change in Total Pension Liability	244,725	216,080	343,168
Total Pension Liability - Beginning	4,510,607	4,755,332	4,971,412
Total Pension Liability - Ending	<u>\$ 4,755,332</u>	<u>\$ 4,971,412</u>	<u>\$ 5,314,580</u>
Plan Fiduciary Net Position			
	2014	2015	2016
Contributions - Employer	\$ 116,470	\$ 140,635	\$ 166,452
Contributions - Employee	73,753	80,739	91,865
Net Investment Income	235,951	6,437	293,031
Benefit Payments, Including Refunds of Employee Contributions	(185,781)	(247,734)	(243,830)
Administrative Expense	(2,464)	(3,920)	(3,311)
Other	(203)	(195)	(178)
Net Change in Plan Fiduciary Net Position	237,726	(24,038)	304,029
Plan Fiduciary Net Position - Beginning	4,124,874	4,362,600	4,338,562
Plan Fiduciary Net Position - Ending	<u>\$ 4,362,600</u>	<u>\$ 4,338,562</u>	<u>\$ 4,642,591</u>
Net Pension Liability - Ending	\$ 392,732	\$ 632,850	\$ 671,989
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.74%	87.27%	87.36%
Covered Employee Payroll	\$ 1,475,068	\$ 1,614,779	\$ 1,796,745
Net Pension Liability as a Percentage of Covered Employee Payroll	26.62%	39.19%	37.40%

Note: The schedule above reflects the changes in the net pension liability for the current year and the two previous plan years. GASB Statement No. 68 requires 10 fiscal years of data to be provided in this schedule. The City will build the schedule over the 10 year period beginning December 31, 2014 as data becomes available.

CITY OF CASTROVILLE
SCHEDULE OF CONTRIBUTIONS AND RELATED NOTES
LAST FOUR FISCAL YEARS

Schedule of Contributions:

	2014	2015	2016	2017
Actuarially Determined Contribution	\$ 115,497	\$ 139,842	\$ 156,977	\$ 168,611
Contribution in Relation to the Actuarially Determined Contribution	115,497	139,842	156,977	168,611
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 1,459,385	\$ 1,643,667	\$ 1,744,669	\$ 1,843,395
Contributions as a Percentage of Covered Employee Payroll	7.91%	8.51%	9.00%	9.15%

Note: The schedule above reflects the TMRS contributions made by the City for the current year and the three previous fiscal years. GASB Statement No. 68 requires 10 fiscal years of data to be provided in this schedule. The City will build the schedule over the 10 year period beginning September 30, 2014 as data becomes available.

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	10 Year Smoothed Market, 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

Notes There were no benefit changes during the year



SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedule include:

- Comparative Balance Sheets – General Fund
- Statement of Revenues, Expenditures & Changes in Fund Balance – Budget and Actual – Debt Service Funds
- Combining Statements – Nonmajor Funds

CITY OF CASTROVILLE
 COMPARATIVE BALANCE SHEETS
 GENERAL FUND
 SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and Investments	\$ 1,656,776	\$ 1,502,853
Receivables (net of allowances for uncollectibles):		
Property Taxes	12,232	8,659
Sales & Mixed Beverage Taxes	127,755	128,254
Other Receivables	5,191	8,848
Due from Other Funds	15,333	-
Prepaid Items	23,000	-
Inventory	10,960	-
	\$ 1,851,247	\$ 1,648,614
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 116,434	\$ 124,989
Accrued Expenditures	61,699	74,699
Due to Other Funds	52	1,508
<i>Total Liabilities</i>	178,185	201,196
 <i>Deferred Inflows of Resources:</i>		
Unavailable Revenues	12,232	8,659
Future Sales Tax Revenue	67,324	60,627
<i>Total Deferred Inflows of Resources</i>	79,556	69,286
 <i>Fund Balances:</i>		
Nonspendable:		
Prepays	23,000	-
Inventory	10,960	-
Unassigned	1,559,546	1,378,132
<i>Total Fund Balances</i>	1,593,506	1,378,132
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & FUND BALANCES	\$ 1,851,247	\$ 1,648,614

CITY OF CASTROVILLE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – DEBT SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE ACTUAL TOTALS FOR 2016)

	Budget Amounts		Actual Amounts	Variance	2016
	Original	Final		Favorable (Unfavorable)	
REVENUES					
Ad Valorem Taxes	\$ 70,792	\$ 70,792	\$ 84,461	\$ 13,669	\$ 83,490
Interest Income	141	141	184	43	229
TOTAL REVENUES	<u>70,933</u>	<u>70,933</u>	<u>84,645</u>	<u>13,712</u>	<u>83,719</u>
EXPENDITURES					
<i>Debt Service:</i>					
Principal	150,000	150,000	149,000	1,000	149,000
Interest	36,500	36,500	36,400	100	39,500
TOTAL EXPENDITURES	<u>186,500</u>	<u>186,500</u>	<u>185,400</u>	<u>1,100</u>	<u>188,500</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(115,567)</u>	<u>(115,567)</u>	<u>(100,755)</u>	<u>14,812</u>	<u>(104,781)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	116,583	116,583	116,583	-	122,843
Transfers Out	-	-	(1,000)	(1,000)	(6,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>116,583</u>	<u>116,583</u>	<u>115,583</u>	<u>(1,000)</u>	<u>116,843</u>
Net Change in Fund Balance	1,016	1,016	14,828	13,812	12,062
Fund Balance - Beginning of Year	<u>32,268</u>	<u>32,268</u>	<u>32,268</u>	-	<u>20,206</u>
Fund Balance - End of Year	<u>\$ 33,284</u>	<u>\$ 33,284</u>	<u>\$ 47,096</u>	<u>\$ 13,812</u>	<u>\$ 32,268</u>

CITY OF CASTROVILLE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	SPECIAL REVENUE				
	Drainage Fund	Hotel Occupancy Fund	Alsatian House Fund	Biry House Fund	Library Memorial Fund
ASSETS					
Cash and Investments	\$ 223,589	\$ 15,055	\$ 20,722	\$ 9,818	\$ 1,994
Receivables (net of allowances for uncollectibles):					
Property Taxes	-	-	-	-	-
Other Receivables	-	9,097	-	-	-
Due from Other Funds	7,357	-	-	-	-
TOTAL ASSETS	<u>\$ 230,946</u>	<u>\$ 24,152</u>	<u>\$ 20,722</u>	<u>\$ 9,818</u>	<u>\$ 1,994</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
<i>Liabilities:</i>					
Accounts Payable	\$ -	\$ 901	\$ -	\$ -	\$ -
Due to Other Funds	5	3,075	-	-	-
<i>Total Liabilities</i>	<u>5</u>	<u>3,976</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenues	-	-	-	-	-
<i>Total Deferred Inflows of Resources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund Balances:</i>					
Restricted	-	20,176	-	-	1,994
Committed	230,941	-	20,722	9,818	-
<i>Total Fund Balances</i>	<u>230,941</u>	<u>20,176</u>	<u>20,722</u>	<u>9,818</u>	<u>1,994</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 230,946</u>	<u>\$ 24,152</u>	<u>\$ 20,722</u>	<u>\$ 9,818</u>	<u>\$ 1,994</u>

SPECIAL REVENUE

DEA Forfeiture Fund	Police Dept. Training Fund	Court Security Fund	Court Technology Fund	Debt Service Funds	Capital Improvement Funds	Total Non Major Funds
\$ 3,130	\$ 3,466	\$ 27,581	\$ 3,059	\$ 47,044	\$ -	\$ 355,458
-	-	-	-	1,136	-	1,136
-	-	-	-	-	-	9,097
-	-	-	-	52	-	7,409
<u>\$ 3,130</u>	<u>\$ 3,466</u>	<u>\$ 27,581</u>	<u>\$ 3,059</u>	<u>\$ 48,232</u>	<u>\$ -</u>	<u>\$ 373,100</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 901
-	-	-	2,755	-	-	5,835
-	-	-	2,755	-	-	6,736
-	-	-	-	1,136	-	1,136
-	-	-	-	1,136	-	1,136
3,130	3,466	27,581	304	47,096	-	103,747
-	-	-	-	-	-	261,481
<u>3,130</u>	<u>3,466</u>	<u>27,581</u>	<u>304</u>	<u>47,096</u>	<u>-</u>	<u>365,228</u>
<u>\$ 3,130</u>	<u>\$ 3,466</u>	<u>\$ 27,581</u>	<u>\$ 3,059</u>	<u>\$ 48,232</u>	<u>\$ -</u>	<u>\$ 373,100</u>

CITY OF CASTROVILLE
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	SPECIAL REVENUE				
	Drainage Fund	Hotel Occupancy Fund	Alsatian House Fund	Biry House Fund	Library Memorial Fund
REVENUES					
Ad Valorem Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	38,132	-	-	-
Charges for Services	111,254	-	-	-	-
Intergovernmental Revenue	-	-	-	-	-
Interest Income	1,038	16	56	-	11
Miscellaneous	125	-	12,254	-	-
TOTAL REVENUES	<u>112,417</u>	<u>38,148</u>	<u>12,310</u>	<u>-</u>	<u>11</u>
EXPENDITURES					
<i>Current:</i>					
General Administration					
City Administration	-	52,466	6,205	-	-
Public Safety					
Municipal Court	-	-	-	-	-
Police Department	-	-	-	-	-
Public Transportation					
Streets	33	-	-	-	-
Culture and Recreation					
Library	-	-	-	-	4,053
<i>Debt Service:</i>					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>33</u>	<u>52,466</u>	<u>6,205</u>	<u>-</u>	<u>4,053</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>112,384</u>	<u>(14,318)</u>	<u>6,105</u>	<u>-</u>	<u>(4,042)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	-	21,223	-	-	-
Transfers Out	(90,983)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(90,983)</u>	<u>21,223</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	21,401	6,905	6,105	-	(4,042)
Fund Balances at Beginning of Year	<u>209,540</u>	<u>13,271</u>	<u>14,617</u>	<u>9,818</u>	<u>6,036</u>
Fund Balances at End of Year	<u>\$ 230,941</u>	<u>\$ 20,176</u>	<u>\$ 20,722</u>	<u>\$ 9,818</u>	<u>\$ 1,994</u>

SPECIAL REVENUE

DEA Forfeiture Fund	Police Dept. Training Fund	Court Security Fund	Court Technology Fund	Debt Service Funds	Capital Improvement Funds	Total Non Major Funds
\$ -	\$ -	\$ -	\$ -	\$ 84,461	\$ -	\$ 84,461
-	-	-	-	-	-	38,132
-	-	3,405	4,540	-	-	119,199
-	1,154	-	-	-	-	1,154
13	-	62	-	184	58	1,438
-	-	-	-	-	-	12,379
<u>13</u>	<u>1,154</u>	<u>3,467</u>	<u>4,540</u>	<u>84,645</u>	<u>58</u>	<u>256,763</u>
-	-	-	-	-	-	58,671
-	-	894	2,808	-	-	3,702
5,452	-	-	-	-	-	5,452
-	-	-	-	-	-	33
-	-	-	-	-	-	4,053
-	-	-	-	149,000	-	149,000
-	-	-	-	36,400	-	36,400
<u>5,452</u>	<u>-</u>	<u>894</u>	<u>2,808</u>	<u>185,400</u>	<u>-</u>	<u>257,311</u>
<u>(5,439)</u>	<u>1,154</u>	<u>2,573</u>	<u>1,732</u>	<u>(100,755)</u>	<u>58</u>	<u>(548)</u>
-	-	-	-	116,583	-	137,806
-	-	-	-	(1,000)	(78,864)	(170,847)
-	-	-	-	115,583	(78,864)	(33,041)
(5,439)	1,154	2,573	1,732	14,828	(78,806)	(33,589)
8,569	2,312	25,008	(1,428)	32,268	78,806	398,817
<u>\$ 3,130</u>	<u>\$ 3,466</u>	<u>\$ 27,581</u>	<u>\$ 304</u>	<u>\$ 47,096</u>	<u>\$ -</u>	<u>\$ 365,228</u>



COMPLIANCE SECTION



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
City of Castroville
Castroville, Texas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of City of Castroville, which comprise the statement of financial position as of September 30, 2017, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 22, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of City of Castroville in a separate letter dated March 22, 2018.

Purpose of This Report

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



Armstrong, Vaughan & Associates, P.C.

March 22, 2018



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
City of Castroville

Report on Compliance for Each Major Federal Program

We have audited City of Castroville's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of City of Castroville's major federal programs for the year ended September 30, 2017. City of Castroville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Castroville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Castroville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of Castroville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of City of Castroville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Castroville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Castroville's internal control over compliance.

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

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

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



Armstrong, Vaughan & Associates, P.C.

March 22, 2018

CITY OF CASTROVILLE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Any material weaknesses identified?	No
Any significant deficiencies identified?	No
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
Any material weaknesses identified?	No
Any significant deficiencies identified?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
66.468	Drinking Water State Revolving Fund
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. Prior Year Findings

NONE

CITY OF CASTROVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Number	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Passed Through Texas Water Development Board			
Clean Water Revolving Fund \$375,000 C/O TWDB 2013A Loan Number L1000060; Project Number 73646; East Side Sanitary Lift Station	66.458	L1000060/10366	\$ 19,500
Total Clean Water Revolving Funds			<u>19,500</u>
Drinking Water Revolving Fund \$3,500,000 C/O TWDB 2015A Loan Number L1000392; Project Number 62534; Water Line Replacement	66.468	L1000392/10366	1,656,672
Total Drinking Water Revolving Funds			<u>1,656,672</u>
Total Passed Through Texas Water Development Board			<u>1,676,172</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>1,676,172</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,676,172</u>

The accompanying notes are an integral part of this financial statement.

CITY OF CASTROVILLE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 1 -- BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Castroville, and is presented in accordance with the requirements of OMB Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

NOTE 2 -- INDIRECT COSTS

City of Castroville has elected to use the 10% de minimus cost rate, however, they have not charged indirect costs to any of its federal grants for the year ending September 30, 2017.

NOTE 3 -- UTILITY CAPITAL PROJECTS

During the year ended September 30, 2013 and 2016, the Texas Water Development Board (TWDB) awarded the City financial assistance in the amount of \$375,000 and \$3,050,000, respectively, from the Clean Water State Revolving Fund (CWSRF), for improvements to the East Side Sanitary Lift Station. Both loans were identified as TWDB Project No. 73646. As of September 30, 2017, the City had \$103,600 and \$1,751,685, respectively, of remaining funds available. Of the total funds expended during the current year, \$19,500 was determined to be Federal Assistance.

During the year ended September 30, 2013 and 2016, the Texas Water Development Board (TWDB) awarded the City financial assistance in the amount of \$350,000 and \$3,500,000, respectively, from the Drinking Water State Revolving Fund (DWSRF), for improvements to the Water Line Replacement. Both loans were identified as TWDB Project No. 62534. As of September 30, 2017, the City had \$83,382 and \$1,339,614, respectively, of remaining funds available. Of the total funds expended during the current year, \$1,656,672 was determined to be Federal Assistance.

