

CITY OF CASTROVILLE, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2018**





CITY OF CASTROVILLE
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

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CITY OF CASTROVILLE

PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

TIM KELLEY

MAYOR PRO-TEM

PAUL CAREY

CITY COUNCIL

TODD TSCHIRHART

JESSE BYARS

PHYLLIS SANTLEBEN

HERB DYER.

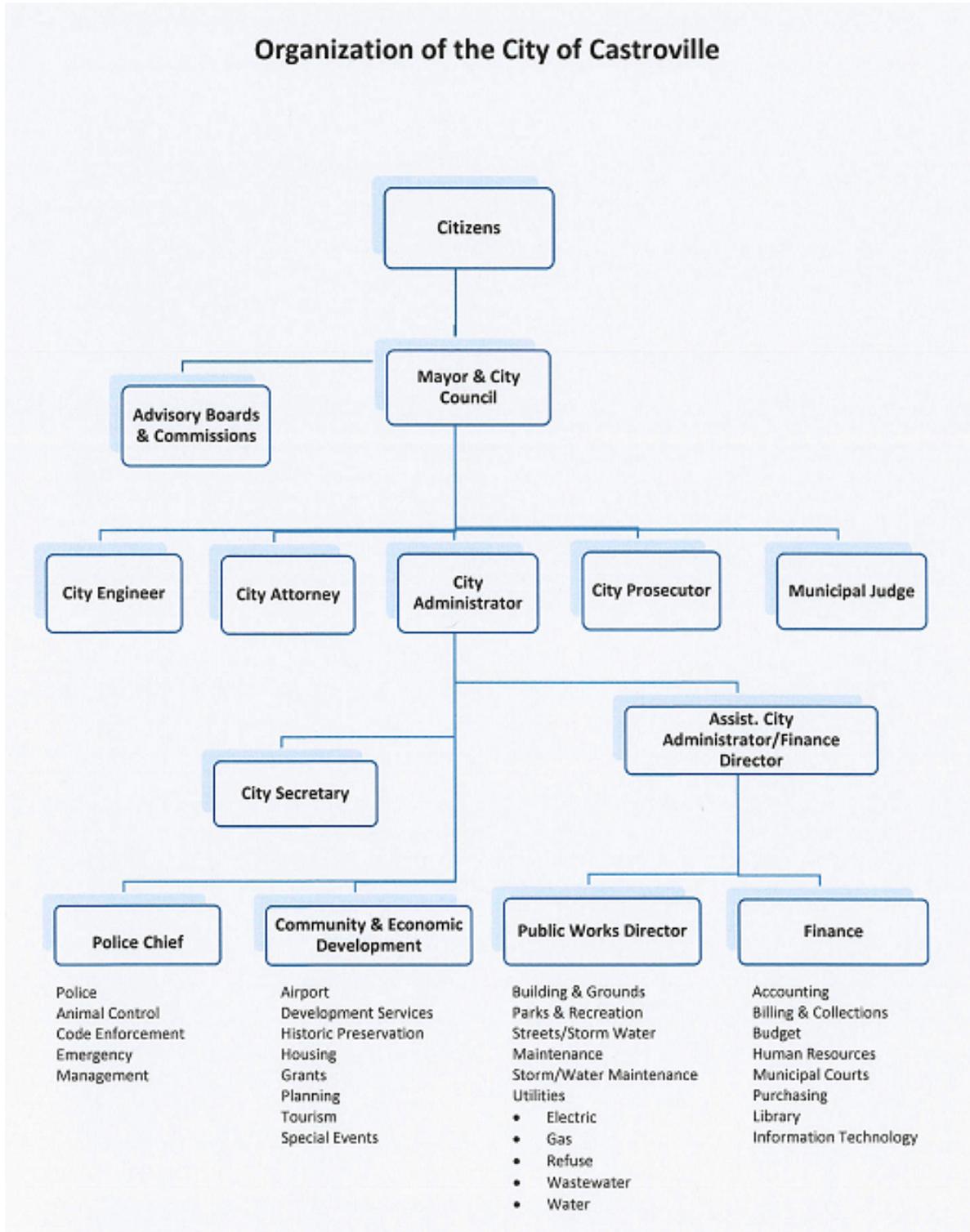
CITY ADMINISTRATOR

MARIE GELLES

ATTORNEY

DENTON, NAVARRO, ROCHA, BERNAL & ZECH

CITY OF CASTROVILLE
ORGANIZATIONAL CHART





Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Kimberly J. Roach

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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note A22 of the financial statements, in October 2017, the City adopted new accounting guidance from the Governmental Accounting Standards Board Statement No. 75 related to accounting for postemployment benefits other than pensions (OPEB) as well as made a change in accounting principal related to revenue recognition regarding sales tax. These changes in accounting policies resulted in restatements of prior year balances. Our opinion is not modified with respect to these matters.

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 well as Total OPEB 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 2 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 21, 2019 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 21, 2019



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, 2018. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

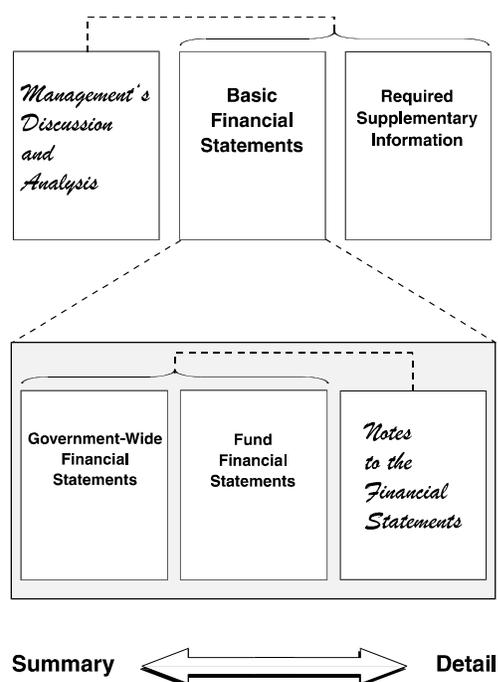
- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows by \$21.2 million (total net position) at September 30, 2018. Of this amount, \$4.9 million (unrestricted net position) may be used to meet the City’s ongoing obligations to citizens and creditors.
- During the year, the City’s total net position increased by \$1.3 million.
- As of September 30, 2018, the City’s governmental funds reported a combined ending fund balance of \$2.2 million, an increase of \$162 thousand from the prior year.
- The City did not obtain any additional debt during the year ended September 30, 2018.

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 55 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds can be found beginning on pages 64 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 \$21.2 million at the close of fiscal year 2018.

By far the largest portion of the City's net position (72%) 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, 2018 (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2018 - 2017
	2018	2017*	2018	2017*	2018	2017*	
<i>Assets:</i>							
Current and Other Assets	\$ 2,452,117	\$ 2,218,460	\$ 5,826,218	\$ 5,576,894	\$ 8,278,335	\$ 7,795,354	6.2
Restricted Assets	-	-	3,927,522	9,748,679	3,927,522	9,748,679	(59.7)
Capital Assets (net)	1,794,612	1,917,326	27,050,118	23,165,628	28,844,730	25,082,954	15.0
<i>Total Assets</i>	<u>4,246,729</u>	<u>4,135,786</u>	<u>36,803,858</u>	<u>38,491,201</u>	<u>41,050,587</u>	<u>42,626,987</u>	(3.7)
<i>Deferred Outflows of Resources</i>	<u>117,572</u>	<u>253,599</u>	<u>55,580</u>	<u>128,795</u>	<u>173,152</u>	<u>382,394</u>	(54.7)
<i>Liabilities:</i>							
Current Liabilities	255,180	342,422	1,462,562	4,216,955	1,717,742	4,559,377	(62.3)
Long-Term Liabilities	1,209,008	1,489,432	16,862,599	17,012,123	18,071,607	18,501,555	(2.3)
<i>Total Liabilities</i>	<u>1,464,188</u>	<u>1,831,854</u>	<u>18,325,161</u>	<u>21,229,078</u>	<u>19,789,349</u>	<u>23,060,932</u>	(14.2)
<i>Deferred Inflows of Resources</i>	<u>129,474</u>	<u>3,438</u>	<u>70,396</u>	<u>1,873</u>	<u>199,870</u>	<u>5,311</u>	3663.3
<i>Net Position:</i>							
Net Investment in							
Capital Assets	894,726	862,230	14,295,879	15,025,877	15,190,605	15,888,107	(4.4)
Restricted	127,354	100,222	1,046,363	880,613	1,173,717	980,835	19.7
Unrestricted	1,748,559	1,591,641	3,121,639	1,482,555	4,870,198	3,074,196	58.4
<i>Total Net Position</i>	<u>\$ 2,770,639</u>	<u>\$ 2,554,093</u>	<u>\$ 18,463,881</u>	<u>\$ 17,389,045</u>	<u>\$ 21,234,520</u>	<u>\$ 19,943,138</u>	6.5

*Note: Comparative information for 2017 has been restated for the effects of the adoption of GASB Statement No. 75. See Note A22 for more detail.

An additional portion of the City's net position \$1.2 million (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$4.9 million (23%) may be used to meet the government's ongoing obligations to citizens and creditors.

Change in Net Position: The City's net position increased \$1.3 million. (See Table A-2.)

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2018 - 2017
	2018	2017	2018	2017	2018	2017	
<i>Program Revenues:</i>							
Charges for Services	\$ 679,232	\$ 581,741	\$ 7,394,464	\$ 7,799,657	\$ 8,073,696	\$ 8,381,398	(3.7)
Operating Grants and Contributions	21,936	42,797	32,139	45,223	54,075	88,020	(38.6)
Capital Grants and Contributions	-	-	270,629	-	270,629	-	100.0
<i>General Revenues:</i>							
Taxes	2,081,074	1,815,175	-	-	2,081,074	1,815,175	14.6
Interest Earnings	6,740	6,572	47,546	31,253	54,286	37,825	43.5
Miscellaneous	42,512	100,888	-	-	42,512	100,888	(57.9)
TOTAL REVENUES	2,831,494	2,547,173	7,744,778	7,876,133	10,576,272	10,423,306	1.5
<i>Program Expenditures:</i>							
General Administration	1,062,885	897,696	-	-	1,062,885	897,696	18.4
Public Safety	1,081,807	1,161,609	-	-	1,081,807	1,161,609	(6.9)
Public Transportation	846,300	462,891	-	-	846,300	462,891	82.8
Culture and Recreation	471,843	596,766	-	-	471,843	596,766	(20.9)
Interest in Debt	30,679	33,692	-	-	30,679	33,692	(8.9)
Utility	-	-	5,215,884	5,007,665	5,215,884	5,007,665	4.2
Airport	-	-	575,492	562,998	575,492	562,998	2.2
TOTAL EXPENSES	3,493,514	3,152,654	5,791,376	5,570,663	9,284,890	8,723,317	6.4
Transfers	878,566	878,347	(878,566)	(878,347)	-	-	0.0
Increase (Decrease) in Net Position after Transfers	\$ 216,546	\$ 272,866	\$ 1,074,836	\$ 1,427,123	\$ 1,291,382	\$ 1,699,989	(24.0)

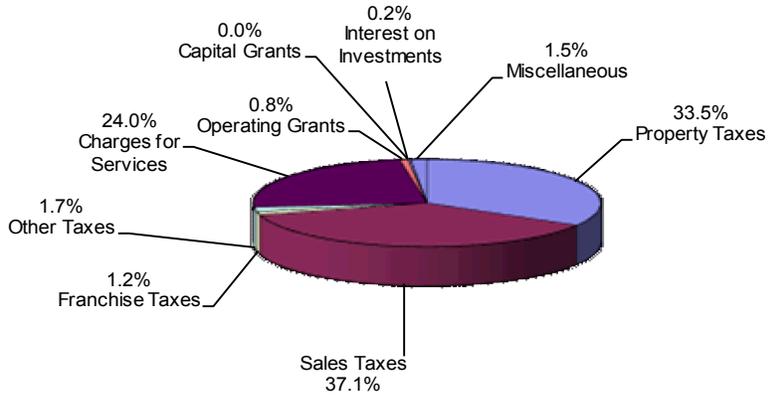
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities for fiscal year 2018.

Governmental Activities

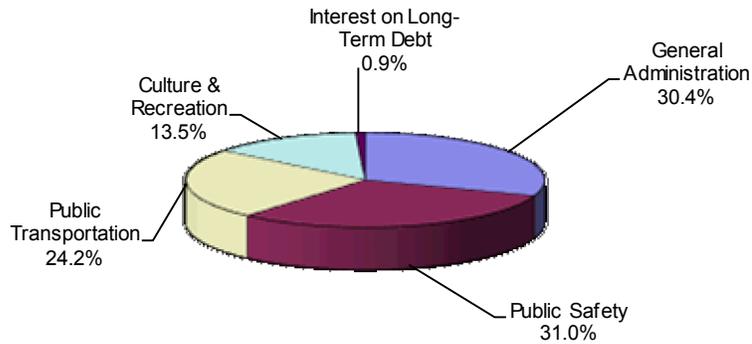
- Ad Valorem taxes decreased \$6 thousand from the previous year.
- Sales tax increased \$260 thousand over the previous year.
- Franchise and other taxes increased \$13 thousand over the previous year.

Governmental activities showed a decrease of \$662 thousand before transfers from business-type activities. The business-type activities transferred \$879 thousand to governmental activities resulting in an increase in net position of \$217 thousand.

2018 Governmental Revenues



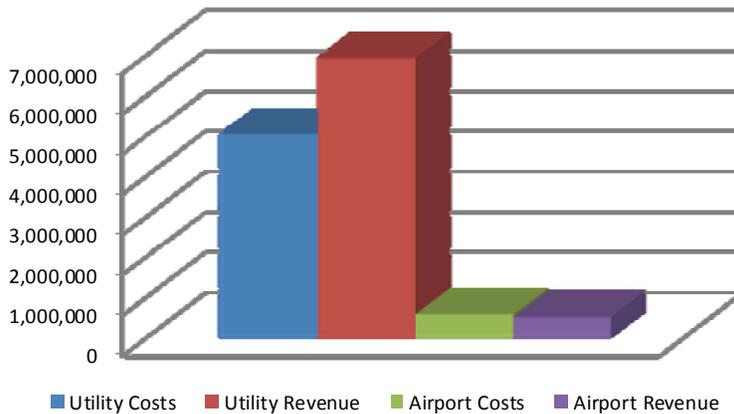
2018 Governmental Function Expenses



Business-Type Activities

Business-type activities increased the City’s net position by \$1.1 million after transfers to governmental activities of \$879 thousand. This increase is partially attributed to the increased charges for services for utilities as well as capital contributions from TxDOT related to the Jet Fuel Farm project.

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 \$2.2 million. Of this total amount, \$8 thousand is considered nonspendable, \$131 thousand is restricted by constraints imposed by external providers such as grantors and enabling legislation, \$276 thousand is committed and reported in special revenue and capital improvement funds, and \$1.8 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 \$1.8 million. The City's general fund balance showed an increase of \$121 thousand during the year. This is attributed to increases in sales tax, franchise fees, licenses and permits, and fines and forfeitures.

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 \$2.8 million. The increase in net position was \$876 thousand. 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 \$369 thousand. The increase in net position was \$199 thousand. This increase is attributable to capital contributions from TxDOT related to the Jet Fuel Farm project. 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 were no budget amendments that increased approved expenditures from the original budget to the final budget. The general fund revenues were over budget by \$57 thousand as a result of increased fines and forfeitures. The general fund expenditures were under budget by \$471 thousand as a result of cost containment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2018, the City had invested \$28.9 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 \$3.8 million or 15.0% 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, the water line replacement, and capital contributions from TxDOT related to the Jet Fuel Farm project. 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
	2018	2017	2018	2017	2018	2017	Change
							2018 - 2017
Land	\$ 105	\$ 105	\$ 2,297	\$ 2,297	\$ 2,402	\$ 2,402	0.0
Construction in Progress	-	-	12,810	11,417	12,810	11,417	12.2
Water Rights	-	-	176	176	176	176	0.0
Buildings and Improvements	589	589	6,497	6,497	7,086	7,086	0.0
Vehicles and Equipment	953	953	1,779	1,399	2,732	2,352	16.2
Infrastructure	1,814	1,814	11,830	9,264	13,644	11,078	23.2
Totals at Historical Cost	3,461	3,461	35,389	31,050	38,850	34,511	12.6
Total Accumulated Depreciation	(1,667)	(1,544)	(8,339)	(7,884)	(10,006)	(9,428)	6.1
Net Capital Assets	\$ 1,794	\$ 1,917	\$ 27,050	\$ 23,166	\$ 28,844	\$ 25,083	15.0

Long Term Debt

At year-end the City had \$17.6 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
	2018	2017	2018	2017	2018	2017	Change
							2018 - 2017
Bonds Payable	\$ 882	\$ 1,035	\$ 213	\$ 250	\$ 1,095	\$ 1,285	(14.8)
Notes Payable	-	-	720	871	720	871	(17.3)
Capital Lease Payable	-	-	52	66	52	66	(21.2)
TWDB Bonds Payable	-	-	15,725	16,435	15,725	16,435	(4.3)
Total Long-Term Debt	\$ 882	\$ 1,035	\$ 16,710	\$ 17,622	\$ 17,592	\$ 18,657	(5.7)

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.
- The City anticipates an increase in new home development in fiscal year 2019, providing additional property tax and utility revenues to the City.
- The construction of a small assisted living facility was completed during the 2018 fiscal year. It will accommodate 16 residents.
- A new Dodge Jeep dealership is scheduled to open during 2019.
- 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 lift station, a water line replacement project, and expansion of the wastewater treatment plant. The lift station, located on the east side of Castroville. The water line project, which replaced oversized and leaking water lines, was completed during the 2018 fiscal year. It is anticipated that the waste water treatment plant will be completed during the 2019 fiscal year. These initiatives will provide infrastructure for anticipated future growth and development.
- The overall property tax rate increased by less than 1% for the 2019 fiscal year. Included in this rate was an increase of 9.6% for debt payment and an increase of less than one quarter of a percent for maintenance and operations.
- Approximately 90% of all streets in the City were chip sealed. The remaining 10% will be completed during the 2019 fiscal year.
- The population of the City is estimated to be 3,028.

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, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 2,265,288	\$ 4,926,642	\$ 7,191,930
Receivables (net of allowances for uncollectibles)			
Ad Valorem Taxes	12,892	-	12,892
Sales & Mixed Beverage Taxes	167,461	-	167,461
Other	19,170	751,139	770,309
Inventory	7,637	128,106	135,743
Internal Balances	(20,331)	20,331	-
Restricted Assets:			
Cash and Investments	-	1,835,864	1,835,864
Investments Held in Escrow	-	2,091,658	2,091,658
Capital Assets:			
Land	105,330	2,297,441	2,402,771
Construction in Progress	-	12,809,684	12,809,684
Water Rights	-	176,126	176,126
Building and Improvements	588,965	6,497,311	7,086,276
Vehicles and Equipment	953,232	1,778,855	2,732,087
Infrastructure	1,814,385	11,829,608	13,643,993
Accumulated Depreciation	(1,667,300)	(8,338,907)	(10,006,207)
TOTAL ASSETS	<u>4,246,729</u>	<u>36,803,858</u>	<u>41,050,587</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	28,131	6,980	35,111
Deferred Pension Related Outflows	83,788	45,556	129,344
Deferred OPEB Related Outflows	5,653	3,044	8,697
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 117,572</u>	<u>\$ 55,580</u>	<u>\$ 173,152</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 195,056	\$ 1,252,732	\$ 1,447,788
Accrued Expenses	55,973	-	55,973
Accrued Interest Payable	4,151	31,320	35,471
Unearned Revenue	-	2,600	2,600
<i>Payable from Restricted Assets:</i>			
Customer Deposits	-	175,910	175,910
<i>Noncurrent Liabilities:</i>			
Due within One Year	162,727	913,705	1,076,432
Due in more than One Year	765,290	15,806,871	16,572,161
Compensated Absences	42,062	12,556	54,618
Net Pension Liability	154,666	84,094	238,760
Total OPEB Liability	84,263	45,373	129,636
TOTAL LIABILITIES	1,464,188	18,325,161	19,789,349
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	129,474	70,396	199,870
TOTAL DEFERRED INFLOWS OF RESOURCES	129,474	70,396	199,870
NET POSITION			
Net Investment in Capital Assets	894,726	14,295,879	15,190,605
Restricted	127,354	1,046,363	1,173,717
Unrestricted	1,748,559	3,121,639	4,870,198
TOTAL NET POSITION	\$ 2,770,639	\$ 18,463,881	\$ 21,234,520

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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	\$ 1,062,885	\$ 104,842	\$ -	\$ -
Public Safety	1,081,807	275,787	1,145	-
Public Transportation	846,300	111,840	-	-
Culture and Recreation	471,843	186,763	20,791	-
Interest on Long-term Debt	30,679	-	-	-
<i>Total Governmental Activities</i>	<u>3,493,514</u>	<u>679,232</u>	<u>21,936</u>	<u>-</u>
<i>Business-Type Activities</i>				
Utility	5,215,884	6,919,730	-	-
Airport	575,492	474,734	32,139	270,629
<i>Total Business-Type Activities</i>	<u>5,791,376</u>	<u>7,394,464</u>	<u>32,139</u>	<u>270,629</u>
Total Primary Government	<u>\$ 9,284,890</u>	<u>\$ 8,073,696</u>	<u>\$ 54,075</u>	<u>\$ 270,629</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				
Prior Period Adjustment				
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</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (958,043)	\$ -	\$ (958,043)
(804,875)	-	(804,875)
(734,460)	-	(734,460)
(264,289)	-	(264,289)
(30,679)	-	(30,679)
<u>(2,792,346)</u>	<u>-</u>	<u>(2,792,346)</u>
-	1,703,846	1,703,846
-	202,010	202,010
-	<u>1,905,856</u>	<u>1,905,856</u>
<u>(2,792,346)</u>	<u>1,905,856</u>	<u>(886,490)</u>
949,536	-	949,536
1,049,379	-	1,049,379
34,764	-	34,764
47,395	-	47,395
6,740	47,546	54,286
42,512	-	42,512
<u>2,130,326</u>	<u>47,546</u>	<u>2,177,872</u>
<u>878,566</u>	<u>(878,566)</u>	<u>-</u>
216,546	1,074,836	1,291,382
2,624,236	17,426,750	20,050,986
<u>(70,143)</u>	<u>(37,705)</u>	<u>(107,848)</u>
<u>\$ 2,770,639</u>	<u>\$ 18,463,881</u>	<u>\$ 21,234,520</u>

CITY OF CASTROVILLE
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 1,949,441	\$ 315,847	\$ 2,265,288
Receivables (net of allowance):			
Property Taxes	11,924	968	12,892
Sales & Mixed Beverage Taxes	167,461	-	167,461
Other Receivables	6,037	13,133	19,170
Due from Other Funds	45,883	124,009	169,892
Inventory	7,637	-	7,637
	<u>7,637</u>	<u>-</u>	<u>7,637</u>
TOTAL ASSETS	<u>\$ 2,188,383</u>	<u>\$ 453,957</u>	<u>\$ 2,642,340</u>
LIABILITIES, DEFERRED INFLOWS OF OF RESOURCES, AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ 194,610	\$ 446	\$ 195,056
Accrued Expenditures	55,973	-	55,973
Due to Other Funds	144,340	45,883	190,223
<i>Total Liabilities</i>	<u>394,923</u>	<u>46,329</u>	<u>441,252</u>
<i>Deferred Inflows of Resources:</i>			
Unavailable Revenue - Property Tax	11,924	968	12,892
<i>Total Deferred Inflows of Resources</i>	<u>11,924</u>	<u>968</u>	<u>12,892</u>
<i>Fund Balances:</i>			
Nonspendable	7,637	-	7,637
Restricted	-	130,537	130,537
Committed	-	276,123	276,123
Unassigned	1,773,899	-	1,773,899
<i>Total Fund Balances</i>	<u>1,781,536</u>	<u>406,660</u>	<u>2,188,196</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, & FUND BALANCES	<u>\$ 2,188,383</u>	<u>\$ 453,957</u>	<u>\$ 2,642,340</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, 2018

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 2,188,196
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.		1,794,612
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		12,892
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	(42,062)	
Deferred Charge on Refunding	28,131	
Bonds Payable	<u>(928,017)</u>	(941,948)
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	(154,666)	
Pension Related Deferred Outflows	83,788	
Pension Related Deferred Inflows	<u>(129,474)</u>	(200,352)
Total OPEB liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.		
Total OPEB Liability	(84,263)	
OPEB Related Deferred Outflows	<u>5,653</u>	(78,610)
Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds.		<u>(4,151)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 2,770,639</u>

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, 2018

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Ad Valorem Taxes	\$ 878,468	\$ 71,544	\$ 950,012
Sales Taxes	1,049,379	-	1,049,379
Franchise Fees	34,764	-	34,764
Other Taxes	4,759	42,636	47,395
Licenses and Permits	97,908	-	97,908
Charges for Services	193,696	122,352	316,048
Fines and Forfeitures	265,274	-	265,274
Intergovernmental Revenue	20,791	1,144	21,935
Interest Income	4,940	1,800	6,740
Miscellaneous	40,612	1,900	42,512
TOTAL REVENUES	2,590,591	241,376	2,831,967
EXPENDITURES			
<i>Current:</i>			
General Administration			
City Administration	341,157	55,564	396,721
Finance	268,397	-	268,397
City Council	27,619	-	27,619
City Secretary	126,518	-	126,518
Information Technology	72,966	-	72,966
Human Resources	76,694	-	76,694
Economic Development	33,729	-	33,729
Non-Departmental	52,704	-	52,704
Public Safety			
Animal Control	59,707	-	59,707
Community Development	115,261	-	115,261
Municipal Court	94,905	1,014	95,919
Police Department	774,641	2,775	777,416
Public Transportation			
Streets	798,920	233	799,153
Culture and Recreation			
Library	138,327	-	138,327
Parks	176,302	-	176,302
Pool	129,233	-	129,233
<i>Capital Outlay</i>	15,329	-	15,329
<i>Debt Service:</i>			
Principal	-	153,000	153,000
Interest and Fiscal Charges	-	33,400	33,400
TOTAL EXPENDITURES	3,302,409	245,986	3,548,395
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$ (711,818)	\$ (4,610)	\$ (716,428)

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, 2018

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 853,747	\$ 137,492	\$ 991,239
Transfers Out	(21,223)	(91,450)	(112,673)
TOTAL OTHER FINANCING SOURCES (USES)	<u>832,524</u>	<u>46,042</u>	<u>878,566</u>
Net Change in Fund Balance	120,706	41,432	162,138
Fund Balances at Beginning of Year	1,593,506	365,228	1,958,734
Prior Period Adjustment	<u>67,324</u>	<u>-</u>	<u>67,324</u>
Fund Balances at End of Year	<u>\$ 1,781,536</u>	<u>\$ 406,660</u>	<u>\$ 2,188,196</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, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 162,138
<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>		(122,714)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		(476)
<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	153,000	
Amortization of Deferred Charges & Premiums	2,210	155,210
<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 contributions exceeded the actuarially determined pension expense.</p>		17,108
<p>Governmental funds report required contributions to other post-employment benefits as expenditures. However, in the Statement of Activities the cost of the expense is recorded based on the actuarially determined cost of the plan. This is the amount that the actuarially determined OPEB expense exceeded contributions.</p>		(8,465)
<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	13,235	
Change in Accrued Interest	510	13,745
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		\$ 216,546

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2018

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
ASSETS			
<i>Current Assets:</i>			
Cash and Investments	\$ 4,523,085	\$ 403,557	\$ 4,926,642
Receivables (net of allowance)	733,310	17,829	751,139
Due from Other Funds	72,244	24,377	96,621
Inventory	97,952	30,154	128,106
<i>Total Current Assets</i>	<u>5,426,591</u>	<u>475,917</u>	<u>5,902,508</u>
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	1,835,864	-	1,835,864
Investments Held in Escrow	2,091,658	-	2,091,658
<i>Total Restricted Assets</i>	<u>3,927,522</u>	<u>-</u>	<u>3,927,522</u>
<i>Non-Current Assets:</i>			
Capital Assets, Net of Accumulated			
Depreciation	18,788,264	8,261,854	27,050,118
<i>Total Non-Current Assets</i>	<u>18,788,264</u>	<u>8,261,854</u>	<u>27,050,118</u>
TOTAL ASSETS	<u>28,142,377</u>	<u>8,737,771</u>	<u>36,880,148</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge on Refunding	-	6,980	6,980
Deferred Pension Related Outflows	45,556	-	45,556
Deferred OPEB Related Outflows	3,044	-	3,044
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 48,600</u>	<u>\$ 6,980</u>	<u>\$ 55,580</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF NET POSITION – PROPRIETARY FUND (CONTINUED)
SEPTEMBER 30, 2018

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 1,221,619	\$ 31,113	\$ 1,252,732
Due to Other Funds	7,364	68,926	76,290
Accrued Interest Payable	29,455	1,865	31,320
Unearned Revenue	-	2,600	2,600
Current Portion of Long Term Debt	835,000	78,705	913,705
<i>Total Current Liabilities</i>	<u>2,093,438</u>	<u>183,209</u>	<u>2,276,647</u>
<i>Liabilities Payable from Restricted Assets:</i>			
Customer Deposits	175,910	-	175,910
<i>Non-Current Liabilities:</i>			
Compensated Absences	10,040	2,516	12,556
Net Pension Liability	84,094	-	84,094
Total OPEB Liability	45,373	-	45,373
Long-Term Debt	15,565,000	241,871	15,806,871
<i>Total Non-Current Liabilities</i>	<u>15,704,507</u>	<u>244,387</u>	<u>15,948,894</u>
TOTAL LIABILITIES	<u>17,973,855</u>	<u>427,596</u>	<u>18,401,451</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	70,396	-	70,396
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>70,396</u>	<u>-</u>	<u>70,396</u>
NET POSITION			
Net Investment in Capital Assets	6,347,621	7,948,258	14,295,879
Restricted	1,046,363	-	1,046,363
Unrestricted	2,752,742	368,897	3,121,639
TOTAL NET POSITION	<u>\$ 10,146,726</u>	<u>\$ 8,317,155</u>	<u>\$ 18,463,881</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, 2018

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
OPERATING REVENUES			
Charges for Services	\$ 6,834,793	\$ 473,534	\$ 7,308,327
Fines and Forfeitures	71,866	1,200	73,066
Operating Grants	-	32,139	32,139
Miscellaneous Revenues	13,071	-	13,071
TOTAL OPERATING REVENUES	<u>6,919,730</u>	<u>506,873</u>	<u>7,426,603</u>
OPERATING EXPENSES			
Personnel Services	791,131	81,779	872,910
Supplies	11,907	2,593	14,500
Other Services and Charges	1,328,264	263,537	1,591,801
Electric Purchases	2,078,813	-	2,078,813
Gas Purchases	170,369	-	170,369
Sanitation Services	426,405	-	426,405
Depreciation and Amortization	230,515	224,010	454,525
TOTAL OPERATING EXPENSES	<u>5,037,404</u>	<u>571,919</u>	<u>5,609,323</u>
OPERATING INCOME (LOSS)	<u>1,882,326</u>	<u>(65,046)</u>	<u>1,817,280</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	46,793	753	47,546
Interest and Fiscal Charges	(178,480)	(3,573)	(182,053)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(131,687)</u>	<u>(2,820)</u>	<u>(134,507)</u>
Net Income (Loss) Before Transfers	1,750,639	(67,866)	1,682,773
Capital Contributions from TxDOT	-	270,629	270,629
Transfers In	-	2,000	2,000
Transfers Out	(874,566)	(6,000)	(880,566)
	<u>(874,566)</u>	<u>266,629</u>	<u>(607,937)</u>
CHANGE IN NET POSITION	876,073	198,763	1,074,836
NET POSITION AT BEGINNING OF YEAR	9,308,358	8,118,392	17,426,750
Prior Period Adjustment	(37,705)	-	(37,705)
NET POSITION AT END OF YEAR	<u>\$ 10,146,726</u>	<u>\$ 8,317,155</u>	<u>\$ 18,463,881</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	ENTERPRISE FUNDS		
	Major Fund	Major Fund	Totals
	Utility Fund	Airport Fund	
Cash Flows From Operating Activities:			
Cash Received From Customers	\$ 7,007,709	\$ 526,643	\$ 7,534,352
Cash Paid to Employee Wages & Benefits	(800,879)	(82,004)	(882,883)
Cash Paid to Suppliers for Goods and Services	(5,887,362)	(251,818)	(6,139,180)
Net Cash Provided (Used) by Operating Activities	<u>319,468</u>	<u>192,821</u>	<u>512,289</u>
Cash Flows From Noncapital Financing Activities:			
Interfund Payables	(21,960)	(15,226)	(37,186)
Transfer (to) from Other Funds	(874,566)	(4,000)	(878,566)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(896,526)</u>	<u>(19,226)</u>	<u>(915,752)</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(4,078,176)	-	(4,078,176)
Refund of Previously Contributed Funds	-	9,790	9,790
Retirement of Long-Term Debt	(840,000)	(74,073)	(914,073)
Interest and Fiscal Charges (Paid) Received	(178,480)	(2,700)	(181,180)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,096,656)</u>	<u>(66,983)</u>	<u>(5,163,639)</u>
Cash Flows From Investing Activities:			
Investment Interest Received	46,793	753	47,546
Net Cash Provided (Used) by Investing Activities	<u>46,793</u>	<u>753</u>	<u>47,546</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,626,921)	107,365	(5,519,556)
Cash and Investments at Beginning 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>
Cash and Investments at End of Year:			
Cash and Investments	4,523,085	403,557	4,926,642
Restricted Cash and Investments	3,927,522	-	3,927,522
	<u>\$ 8,450,607</u>	<u>\$ 403,557</u>	<u>\$ 8,854,164</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	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)	\$ 1,882,326	\$ (65,046)	\$ 1,817,280
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	230,515	224,010	454,525
(Increase) Decrease in Operating Assets:			
Accounts Receivable	81,357	19,770	101,127
Inventory	(1,885)	(9,779)	(11,664)
Increase (Decrease) in Current Liabilities:			
Accounts Payable	(1,869,719)	24,091	(1,845,628)
Customer Deposits	6,622	-	6,622
Compensated Absences	(4,805)	(225)	(5,030)
Net Pension Liability and Related Deferred Inflows and Outflows	(9,567)	-	(9,567)
Total OPEB Liability and Related Deferred Inflows and Outflows	4,624	-	4,624
Total Adjustments to Reconcile Operating Activities	<u>(1,562,858)</u>	<u>257,867</u>	<u>(1,304,991)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 319,468</u>	<u>\$ 192,821</u>	<u>\$ 512,289</u>

See accompanying notes to basic financial statements.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, 2018

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 60 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, 2018

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, 2018

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, 2017 and past due after January 31, 2018. 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, 2018 are \$20,465 and \$32,466, 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, 2018

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. The City currently has pension and other post-employment benefit related deferred outflows of resources.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

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. The City also has pension-related deferred inflows.

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, 2018 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, 2018

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. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the Total OPEB Liability of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' Total OPEB Liability have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

17. 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.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

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

18. 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.

19. INTERFUND TRANSACTIONS

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

20. 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.

21. 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.

22. CHANGES IN ACCOUNTING PRINCIPALS

For the year ending September 30, 2018, the City implemented GASB Statement No. 75 related to accounting for postemployment benefits other than pensions (OPEB). This new standard requires that the City's OPEB plan recognize the total OPEB liability (asset) and OPEB related deferred inflows and outflows of resources on the City's government-wide statements. The prior period adjustment recorded represents the total OPEB liability at September 30, 2017, less associated OPEB related deferred outflows and inflows of resources. The amount of the restatement can be seen in more detail in Note N.

For the year ending September 30, 2018, the City also revised their existing accounting policies related to revenue recognition from 30 days to 60 days for sales tax collections. This change in accounting principal resulted in a prior period adjustment to recognize sales tax revenue previously recorded as unavailable as of September 30, 2017. The amount of the restatement can be seen in more detail in Note N.

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2018

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

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, 2018, the carrying amount of the City’s cash on hand was \$1,320, the carrying amount of deposits in bank was \$9,026,474, and the bank balance was \$9,518,193. 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 \$10,277,655 and market value of \$10,508,521 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 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.

	Fair Value	Weighted Average Maturity (Days)
Held in Escrow:		
Invesco Govt and Agency Investment Fund	\$ 2,091,658	34
Total Investments	\$ 2,091,658	34

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

2. Investments (Continued)

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.

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 \$2,091,658 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.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2018 was \$2,091,658.

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, 2017, upon which the fiscal 2018 levy was based, was \$164,649,449 (i.e., market value less exemptions). The estimated market value was \$215,072,811, making the taxable value 76.6% 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, 2018, was \$0.504093 per \$100 of assessed value, which means that the City has a tax margin of \$1.995907 for each \$100 value and could increase its annual tax levy by approximately \$3,286,250 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.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE D -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2018 are as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Utility Fund</u>	<u>Airport Fund</u>
Franchise Fees	\$ 4,273	\$ -	\$ -	\$ -
Occupancy Tax	-	13,133	-	-
Customer Receivables, Net of Allowance for Uncollectibles	-	-	733,310	17,829
Miscellaneous	1,764	-	-	-
Total Other Receivables	<u>\$ 6,037</u>	<u>\$ 13,133</u>	<u>\$ 733,310</u>	<u>\$ 17,829</u>

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, 2018, the following balances were due between funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Nonmajor Governmental Fund	\$ 45,883	Reimbursement for Costs
Utility Fund	General Fund	3,318	Reimbursement for Costs
Utility Fund	Airport Fund	68,926	Reimbursement for Costs
Airport Fund	General Fund	24,377	Reimbursement for Costs
Nonmajor Governmental Fund	General Fund	116,645	Reimbursement for Costs
Nonmajor Governmental Fund	Utility Fund	7,364	Reimbursement for Costs
		<u>\$ 266,513</u>	

Transfers during the year ended September 30, 2018, were as follows:

<u>Transfer In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Utility Fund	\$ 847,747	In support of admin costs
General Fund	Airport Fund	6,000	Supplement Funding
Nonmajor Governmental Fund	General Fund	21,223	Supplement Funding
Nonmajor Governmental Fund	Nonmajor Governmental Fund	89,450	In support of debt service
Nonmajor Governmental Fund	Utility Fund	26,819	In support of debt service
Airport Fund	Nonmajor Governmental Fund	2,000	In support of debt service
		<u>\$ 993,239</u>	

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE F -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018, was as follows:

<u>Governmental Activities</u>	Balance 10/1/2017	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2018
Land	\$ 105,330	\$ -	\$ -	\$ 105,330
Buildings and Improvements	588,965	-	-	588,965
Vehicles and Equipment	953,232	-	-	953,232
Infrastructure	1,814,385	-	-	1,814,385
	<u>3,461,912</u>	<u>-</u>	<u>-</u>	<u>3,461,912</u>
Less Accumulated Depreciation				
Buildings and Improvements	(271,177)	(20,679)	-	(291,856)
Vehicles and Equipment	(744,929)	(67,940)	-	(812,869)
Infrastructure	(528,480)	(34,095)	-	(562,575)
	<u>(1,544,586)</u>	<u>(122,714)</u>	<u>-</u>	<u>(1,667,300)</u>
Governmental Capital Assets, Net	<u>\$ 1,917,326</u>	<u>\$ (122,714)</u>	<u>\$ -</u>	<u>\$ 1,794,612</u>
<u>Business-Type Activities</u>	Balance 10/1/2017	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2018
Land	\$ 2,297,441	\$ -	\$ -	\$ 2,297,441
Construction in Progress	11,416,555	4,078,176	(2,685,047)	12,809,684
Water Rights	176,126	-	-	176,126
Buildings and Improvements	6,497,311	-	-	6,497,311
Vehicles and Equipment	1,398,516	380,339	-	1,778,855
Infrastructure	9,264,061	2,565,547	-	11,829,608
	<u>31,050,010</u>	<u>7,024,062</u>	<u>(2,685,047)</u>	<u>35,389,025</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,729,715)	(135,354)	-	(1,865,069)
Vehicles and Equipment	(907,971)	(109,618)	-	(1,017,589)
Infrastructure	(5,246,696)	(209,553)	-	(5,456,249)
	<u>(7,884,382)</u>	<u>(454,525)</u>	<u>-</u>	<u>(8,338,907)</u>
Business-Type Capital Assets, Net	<u>\$ 23,165,628</u>	<u>\$ 6,569,537</u>	<u>\$ (2,685,047)</u>	<u>\$ 27,050,118</u>

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

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2018

NOTE F -- CAPITAL ASSETS (Continued)

Depreciation expense was charged to the functions as follows:

Governmental Activities:

General Administration	\$ 26,340
Public Safety	33,315
Public Transportation	47,634
Culture and Recreation	15,425
Total Depreciation Expense - Governmental Activities	\$ 122,714

Business-Type Activities:

Utility	\$ 230,515
Airport	224,010
Total Depreciation Expense - Business-Type Activities	\$ 454,525

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	\$ 2,020,000	2026	2.0 - 3.0%	\$ 1,095,000

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 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.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE G -- LONG-TERM DEBT (Continued)

In 2012, the City received a note through the Texas Water Development Board for \$725,000 to fund improvements to the City's water and waste water lines. 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. Interest rates vary from 0% - 1.8%.

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%.

Changes in Long-Term Debt

	Balance 9/30/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
<i>Governmental Activities:</i>					
2012 Refunding Bonds	\$ 1,035,200	\$ -	\$ (153,000)	\$ 882,200	\$ 157,000
2012 Premium on Bonds	51,544	-	(5,727)	45,817	5,727
<i>Total Governmental Activities</i>	<u>1,086,744</u>	<u>-</u>	<u>(158,727)</u>	<u>928,017</u>	<u>162,727</u>
<i>Business-Type Activities:</i>					
2012 Refunding Bonds	249,800	-	(37,000)	212,800	38,000
2012 Premium on Bonds	12,791	-	(1,421)	11,370	1,421
TXDOT Note	66,048	-	(21,366)	44,682	22,009
Capital Lease - Jet Refueler	66,010	-	(14,286)	51,724	17,275
TWDB - DWSRF	210,000	-	(35,000)	175,000	35,000
TWDB - DWSRF - Construction	3,265,000	-	(170,000)	3,095,000	170,000
TWDB - CWSRF	235,000	-	(35,000)	200,000	40,000
TWDB - CWSRF - Construction	2,750,000	-	(145,000)	2,605,000	145,000
Series 2015 Revenue Bonds	8,475,000	-	(275,000)	8,200,000	270,000
TWDB - CWSRF - Additional	1,500,000	-	(50,000)	1,450,000	45,000
Series 2016 Tax Notes	805,000	-	(130,000)	675,000	130,000
<i>Total Business-Type Activities</i>	<u>17,634,649</u>	<u>-</u>	<u>(914,073)</u>	<u>16,720,576</u>	<u>913,705</u>
Total Primary Government	<u>\$ 18,721,393</u>	<u>\$ -</u>	<u>\$ (1,072,800)</u>	<u>\$ 17,648,593</u>	<u>\$ 1,076,432</u>

The total deferred charges remaining on the refunding is \$35,111 as of September 30, 2018 and is shown on the Statement of Net Position as a deferred outflow of resources.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE G -- LONG-TERM DEBT (Continued)

Annual requirements to amortize all bonded debt outstanding as of September 30, 2018 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
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	137,000	10,035	147,035
2024 - 2026	197,500	11,848	209,348
	<u>\$ 882,200</u>	<u>\$ 100,467</u>	<u>\$ 982,667</u>

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
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	893,000	168,747	1,061,747
2024 - 2028	3,302,500	764,489	4,066,989
2029 - 2033	3,445,000	583,015	4,028,015
2034 - 2038	2,560,000	344,340	2,904,340
2039 - 2043	1,975,000	178,230	2,153,230
2044 - 2047	950,000	27,203	977,203
	<u>\$ 16,657,482</u>	<u>\$ 2,789,144</u>	<u>\$ 19,446,626</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
2019	\$ 18,263
2020	16,949
2021	16,949
2022	1,412
	<u>53,573</u>
Less: Interest Amount	<u>(1,849)</u>
	<u>\$ 51,724</u>

The following is an analysis of the equipment under capital lease as of September 30, 2018:

Transportation & Equipment	\$ 80,000
Less: Accumulated Depreciation	<u>(30,667)</u>
Net Leased Property	<u>\$ 49,333</u>

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2018

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS

Texas Municipal Retirement System

1. Plan Description

The City participates, as one of 883 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 valuation and measurement date, the following employees were covered by the benefit terms:

	2016	2017
Inactive employees or beneficiaries currently receiving benefits	30	32
Inactive employees entitled to but not yet receiving benefits	54	61
Active employees	43	40
	127	133

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, 2018

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

3. Contributions (Continued)

For the year ending September 30, 2018, 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 9.17% and 9.23% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$166,662, 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, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Increases	3.50% to 10.50%, including inflation
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, 2017 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rates (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2018

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

5. Actuarial Assumptions (Continued)

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%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
	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, 2018

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	\$ 1,011,596	\$ 238,760	\$ (384,011)

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, 2017:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at December 31, 2016	\$ 5,314,580	\$ 4,642,591	\$ 671,989
Changes for the year:			
Service Cost	226,467	-	226,467
Interest	355,826	-	355,826
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(117,537)	-	(117,537)
Changes of Assumptions	-	-	-
Contributions - Employer	-	167,071	(167,071)
Contributions - Employee	-	91,097	(91,097)
Net Investment Income	-	643,319	(643,319)
Benefit Payments, Including Refunds of Employee Contributions	(312,626)	(312,626)	-
Administrative Expense	-	(3,335)	3,335
Other Changes	-	(167)	167
Net Changes	152,130	585,359	(433,229)
Balance at December 31, 2017	\$ 5,466,710	\$ 5,227,950	\$ 238,760

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

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

For the year ended September 30, 2018, the City recognized a pension expense of \$139,988. Also, as of September 30, 2018, 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	\$ -	\$ 65,945
Changes in Actuarial Assumptions	-	-
Differences between Projected and Actual Investment Earnings	-	133,925
Contributions Subsequent to the Measurement Date	129,344	-
	\$ 129,344	\$ 199,870

Deferred outflows of resources in the amount of \$129,344 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 plan 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 Plan Year ended December 31,	
2018	\$ (33,468)
2019	(34,391)
2020	(66,023)
2021	(65,988)
	\$ (199,870)

NOTE I -- OTHER POST EMPLOYMENT BENEFIT (OPEB)

The City also participates in the cost sharing, multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) and 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 annual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB. Membership in the plan at December 31, 2017, the valuation and measurement date, consisted of:

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2018

NOTE I -- OTHER POST EMPLOYMENT BENEFIT (OPEB) (Continued)

Inactive Employees or Beneficiaries Currently Receiving Benefits	20
Inactive Employees Entitled to but Not Yet Receiving Benefits	8
Active Employees	40
	68

The SDBF required contribution rates, based on these assumptions, are as follows:

<u>For the Calendar Year Ended December 31,</u>	<u>Total SBDF Contribution Rate</u>	<u>Retiree Portion of SDBF Contribution Rate</u>
2017	0.30%	0.11%
2018	0.32%	0.11%

These contribution rates are based on actuarial assumptions developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method.

These assumptions are summarized below:

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and femal rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and femal rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE I -- OTHER POST EMPLOYMENT BENEFIT (OPEB) (Continued)

The City's Total OPEB Liability (TOL), based on the actuarial factors, as of December 31, 2017 was calculated as follows:

	Total OPEB Liability
Balance at December 31, 2016	\$ 109,404
Changes for the year:	
Service Cost	8,563
Interest	4,259
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes of Assumptions or Other Inputs	9,414
Benefit Payments	(2,004)
Net Changes	20,232
Balance at December 31, 2017	\$ 129,636

There is no separate trust maintained to fund this Total OPEB Liability. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

The following presents the TOL of the City, calculated using the discount rate of 3.31% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower (2.31%) and 1-percentage point higher (4.31%) than the current rate:

	Discount Rate 2.31%	Discount Rate 3.31%	Discount Rate 4.31%
Total OPEB Liability	\$ 153,999	\$ 129,636	\$ 110,875

For the year ended September 30, 2018, the City recognized OPEB expense of \$15,080. Also as of September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ 7,156	\$ -
Contributions Subsequent to the Measurement Date	1,541	-
	\$ 8,697	\$ -

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE I -- OTHER POST EMPLOYMENT BENEFIT (OPEB) (Continued)

Deferred outflows of resources in the amount of \$1,541 is related to OPEB benefits resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total OPEB liability for the plan year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Plan Year Ended December 31,			
2018	\$		2,258
2019			2,258
2020			2,258
2021			382
	\$		<u>7,156</u>

NOTE J -- FUND BALANCE

The City reported fund balance designations at September 30, 2018 as follows:

Fund Balance Designation	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:			
Debt Service	\$ -	\$ 47,091	\$ 47,091
Tourism	-	39,013	39,013
Library	-	1,998	1,998
Police Training and Operations	-	4,973	4,973
Court Security & Technology	-	37,462	37,462
Total Restricted Fund Balance	-	130,537	130,537
Committed for:			
Drainage Projects	-	254,123	254,123
Facilities Maintenance	-	22,000	22,000
Total Committed Fund Balance	-	276,123	276,123
Unassigned	1,773,899	-	1,773,899
Total Fund Balance	\$ 1,773,899	\$ 406,660	\$ 2,180,559

CITY OF CASTROVILLE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2018

NOTE K -- RESTRICTED NET POSITION

The City reported restricted net position at September 30, 2018 as follows:

Net Position Restricted for:	Governmental Activities	Business-type Activities	Total Restricted Net Position
Debt Service	\$ 43,908	\$ -	\$ 43,908
Tourism	39,013	-	39,013
Library	1,998	-	1,998
Police Training and Operations	4,973	-	4,973
Court Security	37,462	-	37,462
Water Acquisition	-	469,404	469,404
Capital Improvements - Impact Fees	-	576,959	576,959
			-
Total Restricted Net Position	\$ 127,354	\$ 1,046,363	\$ 1,173,717

NOTE L -- 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, 2018 are as follows:

Commitment	Estimated Project Cost to City	Expended to Date	Estimated Future Commitment
Engineering Fees	\$ 940,630	\$ 875,366	\$ 65,264
Testing & Inspection Fees	364,000	249,114	114,886
WWTP Capacity Expansion	9,379,533	9,242,445	137,088
Eastside Liftstation	1,918,946	1,899,918	19,028
	\$ 12,603,109	\$ 12,266,843	\$ 336,266

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, 2018, the City had \$103,600 and \$924,266, respectively, of remaining funds available.

CITY OF CASTROVILLE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2018

NOTE L -- COMMITMENTS AND CONTINGENCIES (Continued)

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, 2018, the City had \$83,025 and \$1,238,618, 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, 2018, the City had \$218,647 and \$1,391,202, respectively, of remaining funds available.

NOTE M -- 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, 2018 were \$106,475 for property and casualty and workers compensation coverage.

NOTE N -- PRIOR PERIOD ADJUSTMENTS

In accordance with GASB Statement No. 75, the City has recorded a prior period adjustment to recognize the Other Post-Employment Benefits (OPEB) Liability as described in Note I, above. The OPEB liability at September 30, 2017 was recorded in the governmental activities resulting in a prior period adjustment to restate the beginning net position as of September 30, 2017 by \$107,848 lower so that the restated Net Position at September 30, 2017 would be \$19,943,138.

In accordance with changes in accounting principal related to revenue recognition, the City has recorded a prior period adjustment to recognize sales tax revenue previously recorded as unavailable. The revenue shown previously as unavailable as of September 30, 2017 has now recorded in the General Fund resulting in a prior period adjustment to restate the beginning fund balance as of September 30, 2017 by \$67,324 higher so that the restated Fund Balance at September 30, 2017 would be \$1,660,830.

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
- Notes to Schedule of Changes – Net Pension Liability and Related Ratios
- Schedule of Changes – Total OPEB Liability and Related Ratios
- Notes to Schedule of Changes – Total OPEB 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, 2018
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2017)

	Budget Amounts		Actual Amounts	Variance	2017*
	Original	Final		Favorable (Unfavorable)	
REVENUES					
Ad Valorem Taxes	\$ 901,693	\$ 901,693	\$ 878,468	\$ (23,225)	\$ 867,785
Sales Taxes	1,069,736	1,069,736	1,049,379	(20,357)	850,393
Franchise Fees	37,288	37,288	34,764	(2,524)	27,408
Other Taxes	4,700	4,700	4,759	59	3,990
Licenses and Permits	80,000	80,000	97,908	17,908	78,689
Charges for Services	193,865	193,865	193,696	(169)	187,568
Fines and Forfeitures	195,532	195,532	265,274	69,742	196,284
Intergovernmental Revenue	-	-	20,791	20,791	41,643
Interest Income	4,000	4,000	4,940	940	5,134
Miscellaneous	46,566	46,566	40,612	(5,954)	54,008
TOTAL REVENUES	2,533,380	2,533,380	2,590,591	57,211	2,312,902
EXPENDITURES					
<i>Current:</i>					
General Administration					
City Administration	341,117	341,117	341,157	(40)	204,781
Finance	303,503	303,503	268,397	35,106	222,416
City Council	41,207	41,207	27,619	13,588	30,462
City Secretary	142,209	142,209	126,518	15,691	107,068
Information Technology	82,081	82,081	72,966	9,115	65,969
Human Resources	79,280	79,280	76,694	2,586	73,773
Economic Development	55,836	55,836	33,729	22,107	41,449
Non-Departmental	31,175	31,175	52,704	(21,529)	56,987
Public Safety					
Animal Control	63,402	63,402	59,707	3,695	57,313
Community Development	116,281	116,281	115,261	1,020	264,036
Municipal Court	106,573	106,498	94,905	11,593	85,981
Police Department	819,498	819,498	774,641	44,857	727,514
Public Transportation					
Streets	1,056,420	1,056,420	798,920	257,500	411,486
Culture and Recreation					
Library	199,206	199,206	138,327	60,879	185,208
Parks	213,496	213,496	176,302	37,194	214,385
Pool	117,107	117,107	129,233	(12,126)	117,273
<i>Capital Outlay</i>	5,000	5,075	15,329	(10,254)	134,863
TOTAL EXPENDITURES	3,773,391	3,773,391	3,302,409	470,982	3,000,964
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (1,240,011)	\$ (1,240,011)	\$ (711,818)	\$ 528,193	\$ (688,062)

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, 2018
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2017)

	Budget Amounts		Actual Amounts	Variance	2017*
	Original	Final		Favorable (Unfavorable)	
OTHER FINANCING					
SOURCES (USES)					
Transfers In	\$ 853,747	\$ 853,747	\$ 853,747	\$ -	\$ 932,611
Transfers Out	(21,223)	(21,223)	(21,223)	-	(21,223)
Proceeds from Sale of Assets	2,000	2,000	-	(2,000)	59,372
TOTAL OTHER FINANCING					
SOURCES (USES)	834,524	834,524	832,524	(2,000)	970,760
Net Change in Fund Balance	(405,487)	(405,487)	120,706	526,193	282,698
Fund Balance - Beginning of Year	1,660,830	1,660,830	1,660,830	-	1,378,132
Fund Balance - End of Year	\$ 1,255,343	\$ 1,255,343	\$ 1,781,536	\$ 526,193	\$ 1,660,830

*Note: Comparative information for 2017 has been restated for the effects of change in accounting principal. See Note A22 and Note N for more details.

CITY OF CASTROVILLE
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
SEPTEMBER 30, 2018

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 FOUR CALENDAR YEARS

	Total Pension Liability			
	2014	2015	2016	2017
Service Cost	\$ 162,880	\$ 193,289	\$ 222,617	\$ 226,467
Interest (on the Total Pension Liability)	314,941	330,968	334,854	355,826
Changes of Benefit Terms	-	-	-	-
Differences Between Expected and Actual Experience	(47,315)	(112,683)	29,527	(117,537)
Changes of Assumptions	-	52,240	-	-
Benefit Payments, Including Refunds of Employee Contributions	(185,781)	(247,734)	(243,830)	(312,626)
Net Change in Total Pension Liability	244,725	216,080	343,168	152,130
Total Pension Liability - Beginning	4,510,607	4,755,332	4,971,412	5,314,580
Total Pension Liability - Ending	<u>\$ 4,755,332</u>	<u>\$ 4,971,412</u>	<u>\$ 5,314,580</u>	<u>\$ 5,466,710</u>
	Plan Fiduciary Net Position			
	2014	2015	2016	2017
Contributions - Employer	\$ 116,470	\$ 140,635	\$ 166,452	\$ 167,071
Contributions - Employee	73,753	80,739	91,865	91,097
Net Investment Income	235,951	6,437	293,031	643,319
Benefit Payments, Including Refunds of Employee Contributions	(185,781)	(247,734)	(243,830)	(312,626)
Administrative Expense	(2,464)	(3,920)	(3,311)	(3,335)
Other	(203)	(195)	(178)	(167)
Net Change in Plan Fiduciary Net Position	237,726	(24,038)	304,029	585,359
Plan Fiduciary Net Position - Beginning	4,124,874	4,362,600	4,338,562	4,642,591
Plan Fiduciary Net Position - Ending	<u>\$ 4,362,600</u>	<u>\$ 4,338,562</u>	<u>\$ 4,642,591</u>	<u>\$ 5,227,950</u>
Net Pension Liability - Ending	\$ 392,732	\$ 632,850	\$ 671,989	\$ 238,760
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.74%	87.27%	87.36%	95.63%
Covered Payroll	\$ 1,475,068	\$ 1,614,779	\$ 1,796,745	\$ 1,821,939
Net Pension Liability as a Percentage of Covered Payroll	26.62%	39.19%	37.40%	13.10%

Note: The schedule above reflects the changes in the net pension liability for the current year and the three 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 FIVE FISCAL YEARS

Schedule of Contributions:

	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 115,497	\$ 139,842	\$ 156,977	\$ 168,611	\$ 166,662
Contribution in Relation to the Actuarially Determined Contribution	115,497	139,842	156,977	168,611	166,662
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,459,385	\$ 1,643,667	\$ 1,744,669	\$ 1,843,395	\$ 1,808,304
Contributions as a Percentage of Covered Payroll	7.91%	8.51%	9.00%	9.15%	9.22%

Note: The schedule above reflects the TMRS contributions made by the City for the current year and the four 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	28 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

CITY OF CASTROVILLE, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CHANGES – OTHER POST EMPLOYMENT BENEFIT
 LIABILITY AND RELATED RATIOS
 LAST CALENDAR YEAR

Total OPEB Liability	2017
Service Cost	\$ 8,563
Interest (on the Total OPEB Liability)	4,259
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	9,414
Benefit Payments, Including Refunds of Employee Contributions	(2,004)
Net Change in Total OPEB Liability	20,232
Total OPEB Liability - Beginning	109,404
Total OPEB Liability - Ending	\$ 129,636
 Covered Payroll	 \$ 1,821,939
 Total OPEB Liability as a Percentage of Covered Payroll	 7.12%

Note: The schedule above reflects the changes in the Total OPEB Liability for the current plan year. GASB Statement No. 75 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, 2017 as data becomes available.

NOTES TO SCHEDULE OF CHANGES

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Methods and Assumptions Used to Determine Contribution Rate

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	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.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.



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, 2018 AND 2017

	2018	2017*
ASSETS		
Cash and Investments	\$ 1,949,441	\$ 1,656,776
Receivables (net of allowances for uncollectibles):		
Property Taxes	11,924	12,232
Sales & Mixed Beverage Taxes	167,461	127,755
Other Receivables	6,037	5,191
Due from Other Funds	45,883	15,333
Prepaid Items	-	23,000
Inventory	7,637	10,960
	\$ 2,188,383	\$ 1,851,247
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 194,610	\$ 116,434
Accrued Expenditures	55,973	61,699
Due to Other Funds	144,340	52
<i>Total Liabilities</i>	394,923	178,185
 <i>Deferred Inflows of Resources:</i>		
Unavailable Revenue - Property Tax	11,924	12,232
<i>Total Deferred Inflows of Resources</i>	11,924	12,232
 <i>Fund Balances:</i>		
Nonspendable:		
Prepays	-	23,000
Inventory	7,637	10,960
Unassigned	1,773,899	1,626,870
<i>Total Fund Balances</i>	1,781,536	1,660,830
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & FUND BALANCES	\$ 2,188,383	\$ 1,851,247

*Note: Comparative information for 2017 has been restated for the effects of change in accounting principal. See Note A22 and Note N for more details.

CITY OF CASTROVILLE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – DEBT SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE ACTUAL TOTALS FOR 2017)

	Budget Amounts		Actual Amounts	Variance	2017
	Original	Final		Favorable (Unfavorable)	
REVENUES					
Ad Valorem Taxes	\$ 73,370	\$ 73,370	\$ 71,544	\$ (1,826)	\$ 84,461
Interest Income	90	90	582	492	184
TOTAL REVENUES	<u>73,460</u>	<u>73,460</u>	<u>72,126</u>	<u>(1,334)</u>	<u>84,645</u>
EXPENDITURES					
<i>Debt Service:</i>					
Principal	155,000	155,000	153,000	2,000	149,000
Interest	33,600	33,600	33,400	200	36,400
TOTAL EXPENDITURES	<u>188,600</u>	<u>188,600</u>	<u>186,400</u>	<u>2,200</u>	<u>185,400</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(115,140)</u>	<u>(115,140)</u>	<u>(114,274)</u>	<u>866</u>	<u>(100,755)</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	116,269	116,269	116,269	-	116,583
Transfers Out	-	-	(2,000)	(2,000)	(1,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>116,269</u>	<u>116,269</u>	<u>114,269</u>	<u>(2,000)</u>	<u>115,583</u>
Net Change in Fund Balance	1,129	1,129	(5)	(1,134)	14,828
Fund Balance - Beginning of Year	47,096	47,096	47,096	-	32,268
Fund Balance - End of Year	<u>\$ 48,225</u>	<u>\$ 48,225</u>	<u>\$ 47,091</u>	<u>\$ (1,134)</u>	<u>\$ 47,096</u>

CITY OF CASTROVILLE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2018

	SPECIAL REVENUE				
	Drainage Fund	Hotel Occupancy Fund	Alsatian House Fund	Biry House Fund	Library Memorial Fund
ASSETS					
Cash and Investments	\$ 130,198	\$ 26,897	\$ 12,831	\$ 9,169	\$ 1,998
Receivables (net of allowances for uncollectibles):					
Property Taxes	-	-	-	-	-
Other Receivables	-	13,133	-	-	-
Due from Other Funds	123,925	-	-	-	-
TOTAL ASSETS	\$ 254,123	\$ 40,030	\$ 12,831	\$ 9,169	\$ 1,998
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
<i>Liabilities:</i>					
Accounts Payable	\$ -	\$ 446	\$ -	\$ -	\$ -
Due to Other Funds	-	571	-	-	-
<i>Total Liabilities</i>	-	1,017	-	-	-
 <i>Deferred Inflows of Resources:</i>					
Unavailable Revenues	-	-	-	-	-
<i>Total Deferred Inflows of Resources</i>	-	-	-	-	-
 <i>Fund Balances:</i>					
Restricted	-	39,013	-	-	1,998
Committed	254,123	-	12,831	9,169	-
<i>Total Fund Balances</i>	254,123	39,013	12,831	9,169	1,998
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	 \$ 254,123	 \$ 40,030	 \$ 12,831	 \$ 9,169	 \$ 1,998

SPECIAL REVENUE

DEA Forfeiture Fund	Police Dept. Training Fund	Court Security Fund	Court Technology Fund	Debt Service Funds	Total Non Major Funds
\$ 363	\$ 4,610	\$ 31,185	\$ 6,193	\$ 92,403	\$ 315,847
-	-	-	-	968	968
-	-	-	-	-	13,133
-	-	36	48	-	124,009
<u>\$ 363</u>	<u>\$ 4,610</u>	<u>\$ 31,221</u>	<u>\$ 6,241</u>	<u>\$ 93,371</u>	<u>\$ 453,957</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 446
-	-	-	-	45,312	45,883
-	-	-	-	45,312	46,329
-	-	-	-	968	968
-	-	-	-	968	968
363	4,610	31,221	6,241	47,091	130,537
-	-	-	-	-	276,123
<u>363</u>	<u>4,610</u>	<u>31,221</u>	<u>6,241</u>	<u>47,091</u>	<u>406,660</u>
<u>\$ 363</u>	<u>\$ 4,610</u>	<u>\$ 31,221</u>	<u>\$ 6,241</u>	<u>\$ 93,371</u>	<u>\$ 453,957</u>

CITY OF CASTROVILLE
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

	SPECIAL REVENUE				
	Drainage Fund	Hotel Occupancy Fund	Alsatian House Fund	Biry House Fund	Library Memorial Fund
REVENUES					
Ad Valorem Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	42,636	-	-	-
Charges for Services	111,840	-	-	-	-
Intergovernmental Revenue	-	-	-	-	-
Interest Income	1,025	64	38	-	4
Miscellaneous	-	-	1,900	-	-
TOTAL REVENUES	<u>112,865</u>	<u>42,700</u>	<u>1,938</u>	<u>-</u>	<u>4</u>
EXPENDITURES					
<i>Current:</i>					
General Administration					
City Administration	-	45,086	9,829	649	-
Public Safety					
Municipal Court	-	-	-	-	-
Police Department	-	-	-	-	-
Public Transportation					
Streets	233	-	-	-	-
<i>Debt Service:</i>					
Principal	-	-	-	-	-
Interest and Fiscal Charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>233</u>	<u>45,086</u>	<u>9,829</u>	<u>649</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>112,632</u>	<u>(2,386)</u>	<u>(7,891)</u>	<u>(649)</u>	<u>4</u>
OTHER FINANCING SOURCES (USES)					
Transfers In	-	21,223	-	-	-
Transfers Out	(89,450)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(89,450)</u>	<u>21,223</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	23,182	18,837	(7,891)	(649)	4
Fund Balances at Beginning of Year	<u>230,941</u>	<u>20,176</u>	<u>20,722</u>	<u>9,818</u>	<u>1,994</u>
Fund Balances at End of Year	<u>\$ 254,123</u>	<u>\$ 39,013</u>	<u>\$ 12,831</u>	<u>\$ 9,169</u>	<u>\$ 1,998</u>

SPECIAL REVENUE					
DEA Forfeiture Fund	Police Dept. Training Fund	Court Security Fund	Court Technology Fund	Debt Service Funds	Total Non Major Funds
\$ -	\$ -	\$ -	\$ -	\$ 71,544	\$ 71,544
-	-	-	-	-	42,636
-	-	4,502	6,010	-	122,352
-	1,144	-	-	-	1,144
8	-	69	10	582	1,800
-	-	-	-	-	1,900
<u>8</u>	<u>1,144</u>	<u>4,571</u>	<u>6,020</u>	<u>72,126</u>	<u>241,376</u>
-	-	-	-	-	55,564
-	-	931	83	-	1,014
2,775	-	-	-	-	2,775
-	-	-	-	-	233
-	-	-	-	153,000	153,000
-	-	-	-	33,400	33,400
<u>2,775</u>	<u>-</u>	<u>931</u>	<u>83</u>	<u>186,400</u>	<u>245,986</u>
<u>(2,767)</u>	<u>1,144</u>	<u>3,640</u>	<u>5,937</u>	<u>(114,274)</u>	<u>(4,610)</u>
-	-	-	-	116,269	137,492
-	-	-	-	(2,000)	(91,450)
-	-	-	-	114,269	46,042
(2,767)	1,144	3,640	5,937	(5)	41,432
<u>3,130</u>	<u>3,466</u>	<u>27,581</u>	<u>304</u>	<u>47,096</u>	<u>365,228</u>
<u>\$ 363</u>	<u>\$ 4,610</u>	<u>\$ 31,221</u>	<u>\$ 6,241</u>	<u>\$ 47,091</u>	<u>\$ 406,660</u>



COMPLIANCE SECTION



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Kimberly J. Roach

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, 2018, 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 21, 2019.

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 21, 2019.

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 21, 2019



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, 2018. 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, 2018.

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 21, 2019

CITY OF CASTROVILLE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

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>
66.458	Clean Water State Revolving Fund
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

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, 2018

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 \$3,050,000 C/O TWDB 2015 Loan Number L1000393; Project Number 73646; East Side Sanitary Lift Station	66.458	L1000393/10366	\$ 931,023
Clean Water Revolving Fund \$9,050,000 C/O TWDB 2015B Loan Number L1000391; Project Number 73707; Wastewater Treatment Plant Expansion	66.458	L1000391/10366	1,868,930
Clean Water Revolving Fund \$1,500,000 C/O TWDB 2017 Loan Number L1000613; Project Number 73707; Wastewater Treatment Plant Expansion	66.458	L1000613/10366	<u>892,313</u>
Total Clean Water Revolving Funds			<u>3,692,266</u>
Drinking Water Revolving Fund \$350,000 C/O TWDB 2013 Loan Number L1000065; Project Number 62534; Water Line Replacement	66.468	L1000065/10366	358
Drinking Water Revolving Fund \$3,500,000 C/O TWDB 2015A Loan Number L1000392; Project Number 62534; Water Line Replacement	66.468	L1000392/10366	<u>314,454</u>
Total Drinking Water Revolving Funds			<u>314,812</u>
Total Passed Through Texas Water Development Board			<u>4,007,078</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>4,007,078</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,007,078</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, 2018

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, 2018.

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, 2018, the City had \$103,600 and \$924,266, 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, 2018, the City had \$218,647 and \$1,391,202, 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, 2018, the City had \$83,025 and \$1,238,618, respectively, of remaining funds available.

