

CITY OF CASTROVILLE, TEXAS
Financial and Compliance Report
For the Year Ended September 30, 2011

CITY OF CASTROVILLE, TEXAS

Financial and Compliance Report
Year Ended September 30, 2011

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INTRODUCTORY SECTION

CITY OF CASTROVILLE, TEXAS

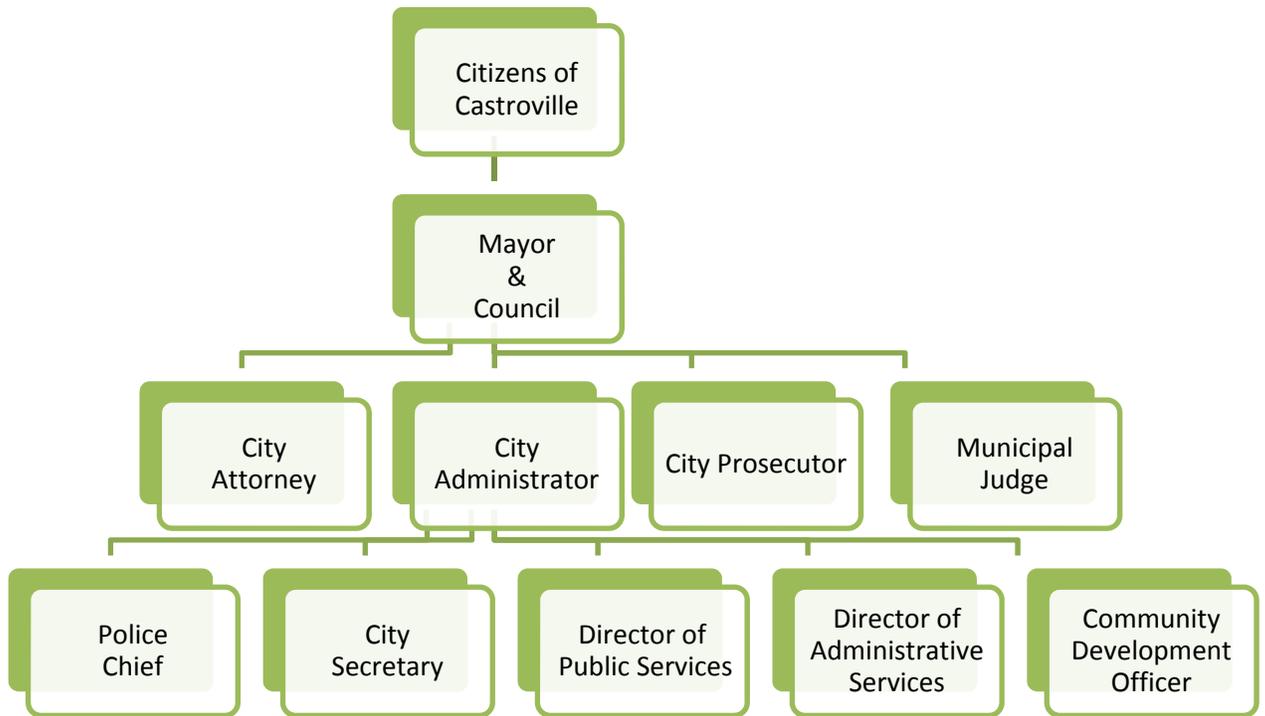
City Officials

Robert Lee Mayor
David P. Stuart Mayor Pro-Tem
Jeff Gardner Council Member
Eric Cherry Council Member
Kyle McVay Council Member
Sammy Tschirhart, Jr. Council Member
Paul Hofmann City Administrator
Marie Gelles Director of Administrative Services
Cristina Hernandez Budget/Accounting Manager

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CITY OF CASTROVILLE, TEXAS

Organizational Chart



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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Castroville, Texas

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, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ended September 30, 2011

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012, on our consideration of the City'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* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and Texas Municipal Retirement System schedule of funding progress on pages 5 through 12, 44 through 45, and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section of this report has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

San Antonio, Texas
February 10, 2012



CITY OF CASTROVILLE, TEXAS

Management's Discussion and Analysis September 30, 2011

As management of the City of Castroville, we offer readers of the City of Castroville's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities by \$9,170,875 (net assets) for the fiscal year reported. Of this amount, \$2,414,219 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$734,124.
- As of September 30, 2011, the City's governmental funds reported combined ending fund balances of \$909,430, a decrease of \$95,788 from the prior year.
- In fiscal year 2011, recurring revenues exceeded recurring expenses in the general and utility funds.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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.

CITY OF CASTROVILLE, TEXAS

Management's Discussion and Analysis September 30, 2011

The government-wide financial statements include only the City itself (known as the primary government).

The government-wide financial statements can be found on pages 13-15 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 nineteen 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 eighteen 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 on pages 16-18 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 and the Airport fund, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

CITY OF CASTROVILLE, TEXAS

Management’s Discussion and Analysis
September 30, 2011

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 on pages 22-43 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 on pages 44-46 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds can be found on pages 47-54 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$9,170,875 at the close of fiscal year 2011.

By far the largest portion of the City’s net assets (75%) reflects its investment in capital assets \$6,467,335 (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:

**CITY OF CASTROVILLE, TEXAS
NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$1,084,872	\$ 870,847	\$ 1,927,989	\$ 1,442,662	\$ 3,012,861	\$ 2,313,509
Restricted Assets	135,433	345,592	311,394	385,064	446,827	730,656
Capital Assets	2,000,071	1,756,315	6,918,243	6,937,831	8,918,314	8,694,146
Total Assets	3,220,376	2,972,754	9,157,626	8,765,557	12,378,002	11,738,311
Current Liabilities	278,562	175,653	132,702	281,290	411,264	456,943
Other Liabilities (Payable from Restricted Assets)	-	-	131,990	128,440	131,990	128,440
Long-Term Liabilities	1,792,324	1,906,984	871,549	809,193	2,663,873	2,716,177
Total Liabilities	2,070,886	2,082,637	1,136,241	1,218,923	3,207,127	3,301,560
Invested in Capital Assets, Net of Related debt	285,939	231,697	6,181,396	6,145,770	6,467,335	6,377,467
Restricted	111,747	-	177,574	256,624	289,321	256,624
Unrestricted	751,804	658,420	1,662,415	1,144,240	2,414,219	1,802,660
Total Net Assets	\$1,149,490	\$ 890,117	\$ 8,021,385	\$ 7,546,634	\$ 9,170,875	\$ 8,436,751

CITY OF CASTROVILLE, TEXAS

Management’s Discussion and Analysis
September 30, 2011

An additional portion of the City’s net assets \$289,321 (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$2,414,219 may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year, the City’s net assets increased by \$734,124.

**CITY OF CASTROVILLE, TEXAS
CHANGE IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues:						
Charges for Services	\$ 566,075	\$ 623,671	\$5,602,754	\$4,915,549	\$ 6,168,829	\$ 5,539,220
Capital Grants and Contributions	52,000	-	3,600	738,177	55,600	738,177
Operating Grants and Contributions	4,941	24,739	15,862	7,014	20,803	31,753
General Revenues:						
Maintenance and Operations Taxes	747,727	698,496	-	-	747,727	698,496
Sales Taxes	549,427	483,080	-	-	549,427	483,080
Franchise Taxes	14,759	17,608	-	-	14,759	17,608
Other Taxes	47,137	35,263	-	-	47,137	35,263
Interest Revenues	15,053	14,181	14,572	16,816	29,625	30,997
Miscellaneous	22,852	51,686	56,515	82,087	79,367	133,773
Total Revenue	2,019,971	1,948,724	5,693,303	5,759,643	7,713,274	7,708,367
Expenses:						
General Administration	729,641	693,292	-	-	729,641	693,292
Public Safety	904,492	950,134	-	-	904,492	950,134
Public Transportation	398,382	252,902	-	-	398,382	252,902
Culture and Recreation	415,968	360,314	-	-	415,968	360,314
Health and Welfare	-	1,893	-	-	-	1,893
Interest and Fiscal Charges	93,876	100,224	-	-	93,876	100,224
Utility	-	-	4,125,169	4,154,856	4,125,169	4,154,856
Airport	-	-	311,622	224,696	311,622	224,696
Loss on Disposal of Fixed Assets	-	-	-	59,708	-	59,708
Total Expenses	2,542,359	2,358,759	4,436,791	4,439,260	6,979,150	6,798,019
Change in Net Assets before Transfers	(522,388)	(410,035)	1,256,512	1,320,383	734,124	910,348
Transfers In (Out)	781,761	763,274	(781,761)	(763,274)	-	-
Increase in Net Assets	259,373	353,239	474,751	557,109	734,124	910,348
Net Assets, Beginning	890,117	536,878	7,546,634	6,989,525	8,436,751	7,526,403
Net Assets, Ending	\$ 1,149,490	\$ 890,117	\$ 8,021,385	\$ 7,546,634	\$ 9,170,875	\$ 8,436,751

CITY OF CASTROVILLE, TEXAS

Management’s Discussion and Analysis
September 30, 2011

- Property taxes increased by \$49,231 during the year.
- Sales taxes increased by \$66,347 over the previous year.

Governmental activities showed a decrease of \$522,388 before transfers from business-type activities. However, business-type activities transferred \$781,761 to governmental activities resulting in an increase in net assets of \$259,373. The transfers from business-type activities to governmental activities increased by \$18,487 from the prior year.

Expenses and Program Revenues - Governmental Activities

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General Administration	\$ 729,641	\$ 15,755	\$ -	\$ -
Public Safety	904,492	253,149	-	-
Public Transportation	398,382	107,039	-	-
Culture and Recreation	415,968	190,132	4,941	52,000
Interest and Fiscal Charges	93,876	-	-	-
	<u>\$ 2,542,359</u>	<u>\$ 566,075</u>	<u>\$ 4,941</u>	<u>\$ 52,000</u>

Revenues by Source - Governmental Activities

	Revenues	%
Property Taxes, Levies for General Purposes	\$ 747,727	54%
Sales Taxes	549,427	39%
Franchise Taxes	14,759	1%
Other Taxes	47,137	3%
Interest Earnings	15,053	1%
Miscellaneous	22,852	2%
	<u>\$ 1,396,955</u>	<u>100%</u>

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities:

Business-type activities increased the City’s net assets by \$474,751 after transfers to the governmental activities of \$781,761. This increase is largely attributed to the increase of utility rates and the drought year.

Expenses and Program Revenues - Business Activities

	Expenses	Revenues	Grants & Contributions
Utility	\$ 4,125,169	\$ 5,393,964	\$ 3,600
Airport	311,622	208,790	15,862
	<u>\$ 4,436,791</u>	<u>\$ 5,602,754</u>	<u>\$ 19,462</u>

CITY OF CASTROVILLE, TEXAS

Management's Discussion and Analysis
September 30, 2011

Financial Analysis of the Government'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 \$909,430. Of this total amount, \$110,298 is restricted by constraints imposed by external providers such as grantors and enabling legislation, \$108,017 is committed and reported in special revenue and debt service funds, and \$691,115 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 unreserved fund balance of the general fund was \$702,405. The City's general fund balance showed an increase of \$232,917 during the year. This is attributed to increases in property and sales taxes and increased transfers from the utility fund.

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 assets of the Utility fund at the end of the year amounted to \$1,613,137. The increase in net assets was \$521,693. This increase is attributable to an increase in utility rates and the drought. Unrestricted net assets of the Airport fund at the end of the year amounted to \$49,278. The decrease in net assets was \$46,942. This decrease is attributable to increased expenses exceeding revenues and the lack of grant revenues in comparison to the prior year. 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 differences between the original budget and the final budget. The general fund was under budget by \$165,688 as a result of cost containment.

CITY OF CASTROVILLE, TEXAS

Management’s Discussion and Analysis
September 30, 2011

Capital Asset and Debt Administration

Capital Assets

The City’s investment in capital assets for its governmental and business type activities as of September 30, 2011, amounts to \$8,918,314 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure (roads, highways, bridges, and utility systems). The total increase in the City’s investment in capital assets for the current fiscal year was 3%.

**CITY OF CASTROVILLE, TEXAS
CAPITAL ASSETS
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 105,330	\$ 105,330	\$ 278,522	\$ 278,522	\$ 383,852	\$ 383,852
Water Rights	-	-	112,386	-	112,386	-
Construction in Progress	67,555	26,977	-	287,520	67,555	314,497
Building and Improvements	264,154	220,550	1,468,438	1,538,801	1,732,592	1,759,351
Equipment and Vehicles	72,557	74,671	298,467	194,738	371,024	269,409
Infrastructure	1,490,475	1,328,787	4,760,430	4,638,250	6,250,905	5,967,037
Total	\$ 2,000,071	\$ 1,756,315	\$ 6,918,243	\$ 6,937,831	\$8,918,314	\$ 8,694,146

Additional information on the City’s capital assets can be found in Note E on pages 32-33 of this report.

Long-Term Debt

At September 30, 2011, the City had \$2,603,946 in bonds and notes outstanding.

**CITY OF CASTROVILLE, TEXAS
Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Certificates of Obligation	\$1,675,050	\$1,772,210	\$ 304,949	\$ 317,789	\$1,979,999	\$2,089,999
General Obligation Refunding Bonds	-	-	255,000	280,000	255,000	280,000
Tax Notes	67,000	98,000	-	-	67,000	98,000
TXDOT Loan	-	-	181,804	199,178	181,804	199,178
Capital Leases	-	-	120,143	-	120,143	-
Total	\$1,742,050	\$1,870,210	\$ 861,896	\$ 796,967	\$2,603,946	\$2,667,177

During the current fiscal year, the City’s total debt decreased by \$63,231.

CITY OF CASTROVILLE, TEXAS

Management's Discussion and Analysis September 30, 2011

Additional information on the City's long-term debt can be found in Note J on pages 38-42 of this report.

Economic Factors and Next Year's Budgets and Rates

- Sales Tax revenues are stable and are expected to increase slightly.
- New development and new home construction is projected to increase, at a slightly faster pace than the previous fiscal year.
- No significant increase is expected for interest rates during the fiscal year.
- Utility rate increases were included in the FY12 budget for electric, water, wastewater, and for the gas utility.

Requests for Information

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

CITY OF CASTROVILLE, TEXAS

Statement of Net Assets
September 30, 2011

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 925,088	\$ 1,222,233	\$ 2,147,321
Receivables, net	55,706	677,701	733,407
Internal Balances	69,850	(69,850)	-
Inventory	-	76,270	76,270
Total Current Assets	<u>1,050,644</u>	<u>1,906,354</u>	<u>2,956,998</u>
Noncurrent Assets			
Restricted Assets			
Cash and Cash Equivalents	135,433	311,394	446,827
Bond Issuance Costs, net of amortization	34,228	21,635	55,863
Land	105,330	278,522	383,852
Water Rights	-	112,386	112,386
Construction in Progress	67,555	-	67,555
Buildings and Improvements, net of depreciation	264,154	1,468,438	1,732,592
Equipment and Vehicles, net of depreciation	72,557	298,467	371,024
Infrastructure, net of depreciation	1,490,475	4,760,430	6,250,905
Total Noncurrent Assets	<u>2,169,732</u>	<u>7,251,272</u>	<u>9,421,004</u>
Total Assets	<u>3,220,376</u>	<u>9,157,626</u>	<u>12,378,002</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	266,152	125,196	391,348
Interest Payable	12,410	4,835	17,245
Deferred Revenue	-	2,671	2,671
Total Current Liabilities	<u>278,562</u>	<u>132,702</u>	<u>411,264</u>
Payable from Restricted Assets			
Customer Deposits	-	131,990	131,990
Total Payable from Restricted Assets	<u>-</u>	<u>131,990</u>	<u>131,990</u>
Long-Term Liabilities			
Due Within One Year	133,555	103,998	237,553
Due In More Than One Year	1,658,769	767,551	2,426,320
Total Long-Term Liabilities	<u>1,792,324</u>	<u>871,549</u>	<u>2,663,873</u>
Total Liabilities	<u>2,070,886</u>	<u>1,136,241</u>	<u>3,207,127</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	285,939	6,181,396	6,467,335
Restricted	111,747	177,574	289,321
Unrestricted	751,804	1,662,415	2,414,219
Total Net Assets	<u>\$ 1,149,490</u>	<u>\$ 8,021,385</u>	<u>\$ 9,170,875</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Statement of Activities
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Administration	\$ 729,641	\$ 15,755	\$ -	\$ -
Public Safety	904,492	253,149	-	-
Public Transportation	398,382	107,039	-	-
Culture and Recreation	415,968	190,132	4,941	52,000
Interest and Amortization	93,876	-	-	-
Total Governmental Activities	2,542,359	566,075	4,941	52,000
Business-Type Activities				
Utility	4,125,169	5,393,964	-	3,600
Airport	311,622	208,790	15,862	-
Total Business-Type Activities	4,436,791	5,602,754	15,862	3,600
Total Primary Government	\$ 6,979,150	\$ 6,168,829	\$ 20,803	\$ 55,600

General Revenues
 Taxes
 Property Taxes, Levied for General Purposes
 Sales Taxes
 Franchise Taxes
 Other Taxes
 Interest Revenue
 Miscellaneous
Total General Revenues
 Change in Net Assets Before Transfers
 Transfers
 Change in Net Assets
 Net Assets - Beginning
 Net Assets - Ending

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ (713,886)	\$ -	\$ (713,886)
(651,343)	-	(651,343)
(291,343)	-	(291,343)
(168,895)	-	(168,895)
<u>(93,876)</u>	<u>-</u>	<u>(93,876)</u>
(1,919,343)	-	(1,919,343)
\$ -	\$ 1,272,395	1,272,395
<u>-</u>	<u>(86,970)</u>	<u>(86,970)</u>
-	1,185,425	1,185,425
<u>(1,919,343)</u>	<u>1,185,425</u>	<u>(733,918)</u>
\$ 747,727	\$ -	\$ 747,727
549,427	-	549,427
14,759	-	14,759
47,137	-	47,137
15,053	14,572	29,625
<u>22,852</u>	<u>56,515</u>	<u>79,367</u>
<u>1,396,955</u>	<u>71,087</u>	<u>1,468,042</u>
(522,388)	1,256,512	734,124
<u>781,761</u>	<u>(781,761)</u>	<u>-</u>
259,373	474,751	734,124
<u>890,117</u>	<u>7,546,634</u>	<u>8,436,751</u>
<u>\$ 1,149,490</u>	<u>\$ 8,021,385</u>	<u>\$ 9,170,875</u>

CITY OF CASTROVILLE, TEXAS

Balance Sheet
 Governmental Funds
 September 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and Cash Equivalents	\$ 818,884	\$ 241,637	\$ 1,060,521
Receivables, net	49,331	6,375	55,706
Due from Other Funds	109,263	42,024	151,287
Total Assets	<u>\$ 977,478</u>	<u>\$ 290,036</u>	<u>\$ 1,267,514</u>
LIABILITIES			
Accounts Payable	\$ 234,647	\$ 31,505	\$ 266,152
Due to Other Funds	31,174	50,263	81,437
Deferred Revenues	9,252	1,243	10,495
Total Liabilities	<u>275,073</u>	<u>83,011</u>	<u>358,084</u>
FUND BALANCES			
Restricted	-	110,298	110,298
Committed	-	108,017	108,017
Unassigned	702,405	(11,290)	691,115
Total Fund Balance	<u>702,405</u>	<u>207,025</u>	<u>909,430</u>
Total Liabilities and Fund Balances	<u>\$ 977,478</u>	<u>\$ 290,036</u>	

Amounts reported for Governmental Activities in Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,048,349.	2,000,071
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.	10,495
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds, Notes, and Loans Payable	(1,742,050)
Bond Issuance Costs, net of amortization of \$25,764	34,228
Interest Payable	(12,410)
Accrued Compensated Absences	<u>(50,274)</u>
Net Assets of Governmental Activities	<u>\$ 1,149,490</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2011

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Property Tax	\$ 629,990	\$ 118,051	\$ 748,041
Sales Tax	549,427	-	549,427
Franchise Tax	14,759	-	14,759
Other Taxes	2,276	44,861	47,137
Licenses and Permits	15,725	-	15,725
Operating Grants	-	4,941	4,941
Charges for Services	190,162	118,296	308,458
Fines and Forfeitures	241,572	320	241,892
Interest Revenue	5,478	9,575	15,053
Miscellaneous Revenue	18,500	4,352	22,852
Total Revenues	<u>1,667,889</u>	<u>300,396</u>	<u>1,968,285</u>
EXPENDITURES			
Current			
General Administration	676,465	48,072	724,537
Public Safety			
Animal Control	58,451	-	58,451
Code Enforcement	59,212	-	59,212
Emergency Management	2,891	-	2,891
Municipal Court	75,802	4,496	80,298
Police Department	665,064	198	665,262
Public Transportation			
Streets	199,768	159,382	359,150
Culture and Recreation			
Library	194,681	12,769	207,450
Parks	107,806	-	107,806
Pool	90,503	-	90,503
Capital Outlay	87,949	183,230	271,179
Debt Service			
Principal	-	128,160	128,160
Interest and Fiscal Charges	-	90,935	90,935
Total Expenditures	<u>2,218,592</u>	<u>627,242</u>	<u>2,845,834</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(550,703)	(326,846)	(877,549)
OTHER FINANCING SOURCES (USES)			
Transfers In	783,620	-	783,620
Transfers Out	-	(1,859)	(1,859)
Total Other Financing Sources (Uses)	<u>783,620</u>	<u>(1,859)</u>	<u>781,761</u>
Net Change in Fund Balances	232,917	(328,705)	(95,788)
Fund Balance, Beginning of Year	469,488	535,730	1,005,218
Fund Balance, End of Year	<u>\$ 702,405</u>	<u>\$ 207,025</u>	<u>\$ 909,430</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2011

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of Governmental Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(95,788)
<p>Governmental funds report capital outlays as expenditures. However, in the government-wide 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 capital outlay (\$271,179) exceeds depreciation (\$79,423) in the current period.</p>		
		191,756
<p>Capital assets contributed to the City are not financial resources and are therefore not reported in the governmental funds.</p>		
		52,000
<p>Repayment of bond and note principal is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.</p>		
Bond and loan principal payments	128,160	
Amortization of bond issuance costs	<u>(3,878)</u>	124,282
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Property Tax Revenue		(314)
<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>		
Accrued compensated absences		(13,500)
Interest payable		<u>937</u>
Change in Net Assets of Governmental Activities	\$	<u><u>259,373</u></u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Statement of Net Assets
 Proprietary Funds
 September 30, 2011

	ENTERPRISE FUNDS		
	Utility	Airport	Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,106,242	\$ 115,991	\$ 1,222,233
Accounts Receivable, net of allowance	646,922	30,779	677,701
Due from Other Funds	65,968	450	66,418
Advances to Other Funds	29,902	-	29,902
Inventory	57,995	18,275	76,270
Total Current Assets	<u>1,907,029</u>	<u>165,495</u>	<u>2,072,524</u>
Noncurrent Assets			
Restricted Assets			
Cash and Cash Equivalents	311,326	68	311,394
Bond Issuance Costs, net of amortization	6,505	15,130	21,635
Capital Assets			
Land	240,127	38,395	278,522
Water Rights	112,386	-	112,386
Buildings and Improvements	952,876	1,754,639	2,707,515
Equipment and Vehicles	797,446	202,206	999,652
Infrastructure	5,394,402	3,299,379	8,693,781
Accumulated Depreciation	(4,599,428)	(1,274,185)	(5,873,613)
Total Noncurrent Assets	<u>3,215,640</u>	<u>4,035,632</u>	<u>7,251,272</u>
Total Assets	<u>5,122,669</u>	<u>4,201,127</u>	<u>9,323,796</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	122,398	2,798	125,196
Interest Payable	1,170	3,665	4,835
Advance from Other Funds	-	29,902	29,902
Due to Other Funds	44,190	92,078	136,268
Deferred Revenue	-	2,671	2,671
Capital Leases Payable	46,657	-	46,657
Bonds, Notes and Loans Payable	14,445	42,896	57,341
Total Current Liabilities	<u>228,860</u>	<u>174,010</u>	<u>402,870</u>
Payable from Restricted Assets			
Utility Deposits	131,990	-	131,990
Total Payable from Restricted Assets	<u>131,990</u>	<u>-</u>	<u>131,990</u>
Noncurrent Liabilities			
Compensated Absences	9,652	-	9,652
Capital Leases Payable	73,486	-	73,486
Bonds, Notes and Loans Payable	290,505	393,908	684,413
Total Noncurrent Liabilities	<u>373,643</u>	<u>393,908</u>	<u>767,551</u>
Total Liabilities	<u>734,493</u>	<u>567,918</u>	<u>1,302,411</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	2,597,766	3,583,630	6,181,396
Restricted	177,273	301	177,574
Unrestricted	1,613,137	49,278	1,662,415
Total Net Assets	<u>\$ 4,388,176</u>	<u>\$ 3,633,209</u>	<u>\$ 8,021,385</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Statement of Revenues, Expenses, and Changes in Net Assets
 Proprietary Funds
 For the Year Ended September 30, 2011

	ENTERPRISE FUNDS		
	Utility	Airport	Totals
OPERATING REVENUES			
Charges for Services	\$ 5,326,053	\$ 208,066	\$ 5,534,119
Fines and Forfeitures	67,911	724	68,635
Operating Grants	-	15,862	15,862
Miscellaneous Revenues	18,190	38,325	56,515
Total Operating Revenues	<u>5,412,154</u>	<u>262,977</u>	<u>5,675,131</u>
OPERATING EXPENSES			
Personnel Services	615,590	67,657	683,247
Supplies	13,476	1,638	15,114
Other Services and Charges	699,038	94,416	793,454
Electric Purchases	2,006,211	-	2,006,211
Gas Purchases	226,431	-	226,431
Sanitation Services	332,362	-	332,362
Depreciation and Amortization	214,716	126,345	341,061
Total Operating Expenses	<u>4,107,824</u>	<u>290,056</u>	<u>4,397,880</u>
Operating Income (Loss)	1,304,330	(27,079)	1,277,251
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	13,242	1,330	14,572
Loss on Disposal of Fixed Assets	-	-	-
Interest Expense	(17,345)	(21,566)	(38,911)
Total Non-Operating Revenues (Expenses)	(4,103)	(20,236)	(24,339)
Income (Loss) Before Transfers and Capital Contributions	1,300,227	(47,315)	1,252,912
Capital Contributions	3,600	-	3,600
Transfers In	1,486	373	1,859
Transfers Out	(783,620)	-	(783,620)
Total Transfers and Capital Grants and Contributions	(778,534)	373	(778,161)
Change in Net Assets	521,693	(46,942)	474,751
Total Net Assets - Beginning	<u>3,866,483</u>	<u>3,680,151</u>	<u>7,546,634</u>
Total Net Assets - Ending	<u>\$ 4,388,176</u>	<u>\$ 3,633,209</u>	<u>\$ 8,021,385</u>

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2011

	ENTERPRISE FUNDS		
	Utility	Airport	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers	\$ 5,390,163	\$ 231,338	\$ 5,621,501
Payments to Suppliers	(3,419,561)	(95,376)	(3,514,937)
Payments to Employees	(618,163)	(67,657)	(685,820)
Receipts from Other Governments	-	15,862	15,862
Receipts (Refunds) of Customer Deposits	3,550	-	3,550
Net Cash Provided By Operating Activities	1,355,989	84,167	1,440,156
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Internal Activity - Payments from (to) Other Funds	31,721	3,175	34,896
Transfers to Other Funds	(782,134)	373	(781,761)
Net Cash Used By Noncapital Financing Activities	(750,413)	3,548	(746,865)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital Contributions	3,600	-	3,600
Proceeds from Capital Leases	142,800	-	142,800
Purchases of Capital Assets	(319,327)	-	(319,327)
Principal Paid on Capital Debt	(35,497)	(42,374)	(77,871)
Interest Paid on Capital Debt	(17,409)	(21,936)	(39,345)
Net Cash Used By Capital and Related Financing Activities	(225,833)	(64,310)	(290,143)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends	13,242	1,330	14,572
Net Cash Provided By Investing Activities	13,242	1,330	14,572
Net Increase (Decrease) In Cash & Cash Equivalents	392,985	24,735	417,720
Cash and Cash Equivalents - Beginning of the Year	1,024,583	91,324	1,115,907
Cash and Cash Equivalents - End of the Year	\$ 1,417,568	\$ 116,059	\$ 1,533,627
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 1,304,330	\$ (27,079)	\$ 1,277,251
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities:			
Depreciation and Amortization Expense	214,716	126,345	341,061
Change In Assets and Liabilities:			
Accounts Receivable	(21,991)	(15,777)	(37,768)
Inventories	4,745	2,044	6,789
Accounts Payable	(146,788)	(1,366)	(148,154)
Deferred Revenues	-	-	-
Compensated Absences	(2,573)	-	(2,573)
Customer Deposits Payable	3,550	-	3,550
Net Cash Provided By Operating Activities	\$ 1,355,989	\$ 84,167	\$ 1,440,156
Reconciliation to Statement of Net Assets - Proprietary Funds:			
Cash and Cash Equivalents - Unrestricted	\$ 1,106,242	\$ 115,991	\$ 1,222,233
Cash and Cash Equivalents - Restricted	311,326	68	311,394
Total Cash and Cash Equivalents - Proprietary Funds	\$ 1,417,568	\$ 116,059	\$ 1,533,627

The Accompanying Notes are an Integral Part of These Basic Financial Statements.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies

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

The City's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Financial 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 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-like activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, 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.

The City reports the following major governmental fund:

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major proprietary funds:

Utility Fund – This fund accounts for the activities of the City’s water, sewer, gas and electric operations.

Airport Fund – This fund accounts for the activities of the City’s airport operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1980, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the City’s general government function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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 principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

The City’s cash and cash equivalents consist of cash on hand and demand deposits.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Receivables and Payables

Activity between the funds that is representative of interfund loans outstanding at the end of the fiscal year is referred to as due to/due from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Accounts and property tax receivables are reported net of allowances for uncollectible accounts. The allowance account represents management’s estimate of uncollectible accounts based upon experience and historical trends.

Property taxes for the City are levied each October 1 on the taxable value as of the preceding January 1, the date a lien attaches, for all taxable real and personal property located in the City. Taxes are due by January 31 following the October 1 assessment date and become delinquent on February 1, at which time they begin accruing penalty and interest. The enforceable legal claim date for property taxes is the assessment date; therefore, the City did not record a receivable for accrual of future taxes at year end. Accordingly, no current taxes receivable are reported. Delinquent taxes have been reported in the financial statements net of the allowance for uncollectible taxes. Tax revenues are recognized as they become available. Accordingly, an amount equal to taxes not yet available has been reported as deferred revenue at the government fund level.

Inventories

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.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets. Infrastructure assets include, but are not limited to, streets, bridges, and utility systems and are the largest asset class of the City. Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and reported as capital assets in the government-wide financial statements. Capital assets in the proprietary funds are capitalized in the fund in which they are utilized.

Depreciation of capital assets is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings and Improvements	7 - 50 years
Infrastructure	5 - 50 years
Equipment and Vehicles	5 - 35 years

Interest Capitalization

The City does not capitalize interest costs related to construction.

Restricted Assets

Restricted Assets include cash and cash equivalents that are legally restricted as to their use. The restricted assets of the Governmental Activities are as follows:

Restricted for Capital Improvements	\$	41,419
Restricted for Tourism		28,089
Restricted for Library		7,541
Restricted for Court Technology and Security		31,138
Restricted for Police Training and Operation		9,661
Restricted for Debt Service		17,585
Total Governmental Activities	\$	<u>135,433</u>

The restricted assets in the Business-Type Activities are as follows:

Restricted for Water Acquisition	\$	45,169
Restricted for Capital Improvements		133,994
Restricted for Debt Service		241
Restricted for Utility Deposits		131,990
Total Business-Type Activities	\$	<u>311,394</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Unpaid Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Fund Equity

In March 2009, the Governmental Accounting Standards Board approved Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (the Statement). The Statement requires that fund balances for each of the City's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balances as of September 30, 2011.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Fund Equity (Continued)

- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The City did not have any assigned fund balances of September 30, 2011.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the City’s General Fund. If a fund deficit exists in other funds, then that amount is reported as unassigned fund balance.

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

As of the fiscal year ended September 30, 2011, the City has implemented the Statement and reclassified its fund balances accordingly.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed by creditors, grantors or laws or regulations of other governments.

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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note B – Deposits and Investments

Legal and Contractual Provisions Governing Deposits and Investments

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contract, the City is authorized to place available deposits and investments in the following: (1) Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations, (2) repurchase agreements, (3) certificates of deposit, (4) money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities, (5) statewide investment pools, (6) investment-grade obligations of state, provincial, and local governments and public authorities, (7) savings and loan association deposits, (8) prime bankers acceptance, (9) prime commercial paper, and (10) Canadian Government obligations (payable in local currency).

Policies and Practices

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy that addresses the following risks:

- a. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2011, \$2,350,719 of the City's bank balance of \$2,600,719 was not covered by depository insurance (FDIC). Per the City's policy, these deposits were collateralized by securities held by the pledging financial institution with a market value of \$3,033,508 at September 30, 2011.
- b. **Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City had no investments at September 30, 2011.
- c. **Interest-rate Risk:** In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.
- d. **Concentration Risk –** The City's investment policy does not allow for an investment in any one issuer that is in excess of fifty percent of the government's total investments.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note C – Interfund Balances and Transfers

Due To and From Other Funds

Balances due to and due from other funds in the governmental funds at September 30, 2011 consist of the following:

<u>Fund</u>	<u>Due From Amount</u>	<u>Due To Amount</u>	<u>Purpose</u>
General Fund			
Utility Fund	\$ 41,399	\$ 5,599	Short-term loans
Airport Fund	24,300	-	Short-term loans
Nonmajor Governmental Funds	43,564	25,575	Short-term loans
Nonmajor Governmental Funds			
General Fund	25,575	43,564	Short-term loans
Utility Fund	2,391	6,649	Short-term loans
Airport Fund	14,058	50	Short-term loans
Total	\$ 151,287	\$ 81,437	
Net Internal Balances	\$ 69,850		

Balances due to and due from other funds in the proprietary funds at September 30, 2011 consist of the following:

<u>Fund</u>	<u>Due From Amount</u>	<u>Due To Amount</u>	<u>Purpose</u>
Utility Fund			
General Fund	\$ 5,599	\$ 41,399	Short-term loans
Airport Fund	53,720	400	Short-term loans
Nonmajor Governmental Funds	6,649	2,391	Short-term loans
Airport Fund			
General Fund	-	24,300	Short-term loans
Utility Fund	400	53,720	Short-term loans
Nonmajor Governmental Funds	50	14,058	Short-term loans
Total	\$ 66,418	\$ 136,268	
Net Internal Balances		69,850	

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note C – Interfund Balances and Transfers (Continued)

Advances To and From Other Funds

In August 2004, the Utility fund loaned \$91,759 to the Airport Fund, as approved by the City Council. The loan has an interest rate of 2.5% and payments are due annually in the amount of \$10,500. The last payment is due in June 2014. The balance of the loan was \$29,902 at September 30, 2011 and is reported in the Utility and Airport funds as an advance to/from other funds.

Interfund Transfers

Purpose	Transfers In	Transfers Out	Net Transfers In/(Out)
Governmental Activities:			
General Fund	\$ 783,620	\$ -	\$ 783,620
Non-Major Governmental Funds	-	(1,859)	(1,859)
Total Governmental Activities	<u>783,620</u>	<u>(1,859)</u>	<u>781,761</u>
Business-Type Activities:			
Utility	1,486	(783,620)	(782,134)
Airport	373	-	373
Total Business-Type Activities:	<u>1,859</u>	<u>(783,620)</u>	<u>(781,761)</u>
	<u>\$ 785,479</u>	<u>\$ (785,479)</u>	<u>\$ -</u>

Transfers within the City are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. The Utility fund transferred \$783,620 to the General Fund, of which \$683,620 was to fund operations, and \$100,000 was used to fund right-of-way maintenance.

Note D – Receivables

Receivables as of year-end for the government’s individual major funds and non-major funds including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor Governmental Funds	Utility Fund	Airport Fund	Totals
Property Taxes	\$ 25,337	\$ 4,868	\$ -	\$ -	\$ 30,205
Customer Accounts	-	5,131	794,341	-	799,472
Intergovernmental	-	-	-	11,378	11,378
Other	49,331	-	652	43,916	93,899
Gross Receivables	<u>74,668</u>	<u>9,999</u>	<u>794,993</u>	<u>55,294</u>	<u>934,954</u>
Less: Allowances for Uncollectibles	<u>(25,337)</u>	<u>(3,624)</u>	<u>(148,071)</u>	<u>(24,515)</u>	<u>(201,547)</u>
Net Total Receivables	<u>\$ 49,331</u>	<u>\$ 6,375</u>	<u>\$ 646,922</u>	<u>\$ 30,779</u>	<u>\$ 733,407</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note E – Capital Assets and Depreciation

Capital asset activity for the year ended September 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Not Being Depreciated:					
Land	\$ 105,330	\$ -	\$ -	\$ -	\$ 105,330
Construction in Progress	<u>26,977</u>	<u>67,555</u>	<u>-</u>	<u>(26,977)</u>	<u>67,555</u>
Subtotal	132,307	67,555	-	(26,977)	172,885
Being Depreciated:					
Buildings/Improvements	376,441	52,000	-	-	428,441
Equipment and Vehicles	592,895	39,814	-	-	632,709
Infrastructure	<u>1,623,598</u>	<u>163,810</u>	<u>-</u>	<u>26,977</u>	<u>1,814,385</u>
Subtotal	2,592,934	255,624	-	26,977	2,875,535
Accumulated depreciation:					
Buildings/Improvements	(155,891)	(8,396)	-	-	(164,287)
Equipment and Vehicles	(518,224)	(41,928)	-	-	(560,152)
Infrastructure	<u>(294,811)</u>	<u>(29,099)</u>	<u>-</u>	<u>-</u>	<u>(323,910)</u>
Subtotal	<u>(968,926)</u>	<u>(79,423)</u>	<u>-</u>	<u>-</u>	<u>(1,048,349)</u>
Net Being Depreciated	<u>1,624,008</u>	<u>176,201</u>	<u>-</u>	<u>26,977</u>	<u>1,827,186</u>
Net Capital Assets	<u>\$ 1,756,315</u>	<u>\$ 243,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,071</u>

Depreciation was charged to the functions as follows:

Governmental Activities:	
General Administration	\$ 2,821
Public Safety	28,125
Public Transportation	41,142
Culture and Recreation	7,335
Total Governmental Activities Depreciation Expense	<u>\$ 79,423</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note E – Capital Assets and Depreciation (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities:					
Not Being Depreciated:					
Land	\$ 278,522	\$ -	\$ -	\$ -	\$ 278,522
Water Rights	-	112,386	-	-	112,386
Construction in Progress	287,520	-	-	(287,520)	-
Subtotal	566,042	112,386	-	(287,520)	390,908
Being Depreciated:					
Buildings/Improvements	2,707,515	-	-	-	2,707,515
Equipment and Vehicles	867,619	142,800	(10,767)	-	999,652
Infrastructure	8,342,123	64,138	-	287,520	8,693,781
Subtotal	11,917,257	206,938	(10,767)	287,520	12,400,948
Accumulated depreciation:					
Buildings/Improvements	(1,168,714)	(70,363)	-	-	(1,239,077)
Equipment and Vehicles	(672,880)	(39,072)	10,767	-	(701,185)
Infrastructure	(3,707,872)	(229,479)	-	-	(3,933,351)
Subtotal	(5,545,466)	(338,914)	10,767	-	(5,873,613)
Net Being Depreciated	6,371,791	(131,976)	-	287,520	6,527,335
Net Capital Assets	\$ 6,937,833	\$ (19,590)	\$ -	\$ -	\$ 6,918,243

Depreciation was charged to the functions as follows:

Business-Type Activities:	
Utility	\$ 214,250
Airport	124,664
Total Business-Type Activities Depreciation Expense	\$ <u>338,914</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note F - Pension Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2010	Plan Year 2011
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating,	100% Repeating,
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note F - Pension Plan (Continued)

Contributions (Continued)

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Annual required contribution (ARC)	\$	146,799
Interest on net pension obligation		-
Adjustment to the ARC		-
Annual pension cost (APC)		<u>146,799</u>
Contributions made		<u>(146,799)</u>
Increase (decrease) in net pension obligation		-
Net pension obligation/(asset), beginning of year		-
Net pension obligation/(asset), end of year	\$	<u><u>-</u></u>

Three-year trend information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/(Asset)
2009	\$ 118,573	\$ 118,573	100%	\$ -
2010	\$ 137,193	\$ 137,193	100%	\$ -
2011	\$ 146,799	\$ 146,799	100%	\$ -

The required contributions rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	<u>December 31, 2008</u>	<u>December 31, 2009</u>	prior to restructuring <u>December 31, 2010</u>	restructured <u>December 31, 2010</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29 years; closed period	28.1 years; closed period	27.2 years; closed period	27.3 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed	10-year Smoothed	10-year Smoothed
Actuarial Assumptions:		Market	Market	Market
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.1%	2.1%	2.1%	2.1%

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note F - Pension Plan (Continued)

Contributions (Continued)

Funded Status and Funding Progress – In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructuring of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2010 ¹	\$ 2,303,505	\$ 3,232,276	71.3%	\$ 928,771	\$ 1,405,299	66.1%
12/31/2010 ²	\$ 3,109,664	\$ 3,913,438	79.5%	\$ 803,774	\$ 1,405,299	57.2%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note F - Pension Plan (Continued)

Supplemental Death Benefits

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

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

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

The City's contributions to the TMRS SDBF for the years ending 2011, 2010, and 2009 were \$6,006, \$4,782, and \$4,707, respectively, which equaled the required contributions each year.

Note G – Compensated Absences

The City allows employees to begin accruing vacation leave after the completion of a six-month probation period. Unlimited vacation leave may be accrued, which will be paid 100% upon resignation, death, or termination. No sick leave will be paid to an employee upon termination of employment. The total obligation for vacation accrual for the City amounted to \$59,926 at September 30, 2011.

Note H – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; employees' health and life and natural disasters. The City manages these losses through participation in the Texas Municipal League (TML), a public entity risk pool. 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 TML. Liability by the City is generally limited to contributed amounts.

Management believes the insurance coverage is sufficient to preclude any significant losses to the City. Settled claims have not exceeded the insurance coverage in any of the past three fiscal years.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note I – Operating Leases

The City leases equipment under non-cancellable operating leases. Total expenditures for operating leases for the fiscal year ended September 30, 2011 were \$10,345 for governmental activities and \$2,429 for business-type activities.

The future minimum lease payments lease payments for these leases are as follows:

Year Ended September 30,	Amount
2012	\$ 12,772
2013	11,022
2014	4,648
2015	2,420
Total	<u>\$ 30,862</u>

Note J – Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2011 included the following:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Series 2003 Certificates of Obligation	\$ 1,100,000	\$ -	\$ 70,000	\$ 1,030,000	\$ 70,000
Series 2004 Certificates of Obligation	672,210	-	27,160	645,050	30,555
Total Bonds	<u>1,772,210</u>	<u>-</u>	<u>97,160</u>	<u>1,675,050</u>	<u>100,555</u>
2006 Tax Notes	98,000	-	31,000	67,000	33,000
Compensated Absences	<u>36,774</u>	<u>13,500</u>	<u>-</u>	<u>50,274</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 1,906,984</u>	<u>\$ 13,500</u>	<u>\$ 128,160</u>	<u>\$ 1,792,324</u>	<u>\$ 133,555</u>

The general fund is used to liquidate other governmental long-term liabilities.

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Series 2004 Certificates of Obligation	\$ 317,789	\$ -	\$ 12,840	\$ 304,949	\$ 14,445
Series 2004 General Obligation Refunding Bonds	280,000	-	25,000	255,000	25,000
Total Bonds	<u>597,789</u>	<u>-</u>	<u>37,840</u>	<u>559,949</u>	<u>39,445</u>
TXDOT Note	199,178	-	17,374	181,804	17,896
Capital Leases	-	142,800	22,657	120,143	46,657
Compensated Absences	<u>12,225</u>	<u>-</u>	<u>2,573</u>	<u>9,652</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 809,192</u>	<u>\$ 142,800</u>	<u>\$ 80,444</u>	<u>\$ 871,548</u>	<u>\$ 103,998</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note J – Long-Term Liabilities (Continued)

Description of Debt

General Obligation Debt

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003

On August 1, 2003, the City issued \$1,515,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003, to finance capital improvements, including street and sidewalk improvements and incidental drainage, to construct drainage improvements, and to pay for related professional services. Principal payments on the bonds are due annually on August 1 and interest is due and payable semi-annually on August 1 and February 1 at rates ranging from 4.75% to 5.5%. The final maturity date of the certificates is August 1, 2023. The certificates are callable on August 1, 2012 at par.

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2004

On October 1, 2004, the City issued \$1,135,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2004, to finance capital improvements, including street and sidewalk improvements and incidental drainage, to reimburse funds used to purchase a water system, and to pay for related professional services. Principal payments on the bonds are due annually on September 1 and interest is due and payable semi-annually on September 1 and March 1 at rates ranging from 4% to 6%. The final maturity date of the certificates is September 1, 2026. The certificates are callable on September 1, 2013 at par.

General Obligation Refunding Bonds, Series 2004

On June 10, 2004, the City issued \$410,000 of General Obligation Refunding Bonds, Series 2004. The bond were issued for the purpose of paying an agreed judgment entered on May 3, 2004 pertaining to litigation in the amount of \$388,227, together with any accruing interest and related costs of fees, and to pay the costs of issuing the general obligation refunding bonds. Principal payments are due annually on August 15. Interest is payable semi-annually on February 15 and August 15 at rates ranging from 2.9% to 5.5%. The final maturity date for the bonds is September 30, 2019. The bonds are callable on August 1, 2013 at par. The City is authorized to levy an ad valorem tax for the payment of these bonds; however, as of September 30, 2011, the ad valorem tax had not been levied and the debt is being 100% supported by the Airport fund.

Tax Notes, Series 2006

On March 15, 2006, the City issued Tax Notes, Series 2006, in the principal amount of \$210,000 to finance the costs of paying contractual obligations to be incurred for the purchase of vehicles and equipment for the City's public works and police departments. Principal payments on the notes are due and payable annually on December 1. Interest is due and payable semi-annually on June 1 and December 1 at rates ranging from 3.7% to 4.35%. The final maturity date of the notes is December 1, 2012.

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note J – Long-Term Liabilities (Continued)

Description of Debt (Continued)

Other Debt

Texas Department of Transportation Loan

In December 2003, the City entered into a loan agreement with the Texas Department of Transportation to borrow the sum of \$278,748 for the construction of aviation t-hangars 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.

Capital Lease – Kansas State Bank

On February 25, 2011, the City entered in to a lease-purchase agreement with Kansas State Bank for the purchase of a bucket truck for its utility operations. The term of the lease is 36 months, with monthly payments of \$4,210, which includes interest. The lease is recorded in the Utility Fund. The capitalized cost of the bucket truck is \$142,800. Accumulated depreciation was \$11,900 as of September 30, 2011.

Debt Maturity

Debt service requirements at September 30, 2011 were as follows:

Governmental Activities - Bonds			
Year Ended September 30	Principal	Interest	Total
2012	\$ 100,555	\$ 82,105	\$ 182,660
2013	105,555	76,597	182,152
2014	108,950	71,201	180,151
2015	108,950	65,941	174,891
2016	117,345	61,021	178,366
2017-2021	660,490	218,451	878,941
2022-2026	473,205	56,186	529,391
Totals	<u>\$ 1,675,050</u>	<u>\$ 631,502</u>	<u>\$ 2,306,552</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note J – Long-Term Liabilities (Continued)

Debt Maturity (Continued)

Governmental Activities - Notes			
Year Ended September 30	Principal	Interest	Total
2012	\$ 33,000	\$ 2,180	\$ 35,180
2013	34,000	740	34,740
Totals	\$ 67,000	\$ 2,920	\$ 69,920

Business-Type Activities - Bonds			
Year Ended September 30	Principal	Interest	Total
2012	\$ 39,445	\$ 27,282	\$ 66,727
2013	44,445	25,241	69,686
2014	46,050	22,919	68,969
2015	46,050	20,586	66,636
2016	47,655	18,414	66,069
2017-2021	209,510	55,167	264,677
2022-2026	126,794	18,502	145,296
Totals	\$ 559,949	\$ 188,111	\$ 748,060

Business-Type Activities - Notes			
Year Ended September 30	Principal	Interest	Total
2012	\$ 17,896	\$ 5,454	\$ 23,350
2013	18,433	4,917	23,350
2014	18,986	4,364	23,350
2015	19,555	3,795	23,350
2016	20,142	3,208	23,350
2017-2020	86,792	6,606	93,398
Totals	\$ 181,804	\$ 28,344	\$ 210,148

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note J – Long-Term Liabilities (Continued)

Debt Maturity (Continued)

Commitments under capital lease agreements for equipment provide for minimum future lease payments as of September 30, 2011 and are as follows:

<u>Year Ended September 30,</u>	<u>Business-Type Activities</u>
2012	\$ 50,516
2013	50,516
2014	25,258
	<u>126,290</u>
Less amounts representing interest	<u>(6,147)</u>
Principal Amounts Due	120,143
Current Portion	<u>(46,657)</u>
Long-Term Portion	<u>\$ 73,486</u>

Note K – Fund Balances

The City reported fund balance designations at September 30, 2011 as follows:

<u>Fund Balance Designation</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:			
Debt Service	\$ -	\$ 19,554	\$ 19,554
Tourism	-	32,798	32,798
Library	-	6,253	6,253
Court Technology	-	24,903	24,903
Court Security	-	17,581	17,581
Police Training and Operations	-	9,209	9,209
Committed for:			
Drainage Projects	-	90,337	90,337
Facilities Maintenance	-	17,680	17,680
Unassigned	<u>702,405</u>	<u>(11,290)</u>	<u>691,115</u>
Total Fund Balance	<u>\$ 702,405</u>	<u>\$ 207,025</u>	<u>\$ 909,430</u>

CITY OF CASTROVILLE, TEXAS

Notes to the Basic Financial Statements
For the Year Ended September 30, 2011

Note K – Fund Balances (Continued)

The City reported the following fund balance deficits at September 30, 2011:

- A deficit fund balance of \$228 in its Library TBF Grant fund. The deficit will be funded by future grant revenue and interest earnings on cash.
- A deficit fund balance of \$11,062 in its Capital Improvement fund. The deficit will be financed by the general fund and interest earnings on cash.

Note L – Restricted Net Assets

The City reported restricted net assets at September 30, 2011 as follows:

Net Assets Restricted For	Governmental Activities	Business-Type Activities	Total Restricted Net Assets
Debt Service	\$ 20,797	\$ 301	\$ 21,098
Tourism	32,798	-	32,798
Library	6,459	-	6,459
Court Technology	24,903	-	24,903
Court Security	17,581	-	17,581
Police Training and Operations	9,209	-	9,209
Water Acquisition	-	44,830	44,830
Capital Improvements	-	132,443	132,443
Total Fund Balance	\$ 111,747	\$ 177,574	\$ 289,321

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REQUIRED SUPPLEMENTAL INFORMATION

CITY OF CASTROVILLE, TEXAS

Required Supplemental Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Budget to Actual – General Fund
 For the Year Ended September 30, 2011

	Budgeted Amounts		Actual	Variance Positive/ (Negative)
	Original	Final		
REVENUES				
Property Tax	\$ 631,000	\$ 631,000	\$ 629,990	\$ (1,010)
Sales Tax	494,000	494,000	549,427	55,427
Franchise Tax	60,674	60,674	14,759	(45,915)
Other Taxes	2,300	2,300	2,276	(24)
Licenses and Permits	15,000	15,000	15,725	725
Charges for Services	192,350	192,350	190,162	(2,188)
Fines and Forfeitures	253,800	253,800	241,572	(12,228)
Interest Revenue	3,700	3,700	5,478	1,778
Miscellaneous Revenue	37,796	37,796	18,500	(19,296)
Total Revenues	<u>1,690,620</u>	<u>1,690,620</u>	<u>1,667,889</u>	<u>(22,731)</u>
EXPENDITURES				
Current				
General Administration	745,246	745,246	676,465	68,781
Public Safety				
Animal Control	64,847	64,847	58,451	6,396
Code Enforcement	67,862	67,862	59,212	8,650
Emergency Management	3,436	3,436	2,891	545
Municipal Court	96,157	96,157	75,802	20,355
Police Department	722,941	722,941	665,064	57,877
Public Transportation				
Streets	216,046	216,046	199,768	16,278
Culture and Recreation				
Library	199,133	199,133	194,681	4,452
Parks	108,002	108,002	107,806	196
Pool	106,491	106,491	90,503	15,988
Health and Welfare				
Health and Sanitation	2,850	2,850	-	2,850
Capital Outlay	74,000	74,000	87,949	(13,949)
Total Expenditures	<u>2,407,011</u>	<u>2,407,011</u>	<u>2,218,592</u>	<u>188,419</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(716,391)	(716,391)	(550,703)	165,688
Other Financing Sources and (Uses)				
Transfers In	783,620	783,620	783,620	-
Total Other Financing Sources and Uses	<u>783,620</u>	<u>783,620</u>	<u>783,620</u>	<u>-</u>
Net Change in Fund Balances	67,229	67,229	232,917	165,688
Fund Balance, Beginning of Year	469,488	469,488	469,488	-
Fund Balance, End of Year	<u>\$ 536,717</u>	<u>\$ 536,717</u>	<u>\$ 702,405</u>	<u>\$ 165,688</u>

CITY OF CASTROVILLE, TEXAS

Required Supplemental Information
Notes to the Budgetary Comparison Schedule
For the Year Ended September 30, 2011

Budget Requirements, Accounting, and Reporting

The budget requirements for all funds are as follows:

The City Administrator has been authorized by the City Council to prepare the budget and is assisted by the City Secretary and finance personnel. The budget is adopted on a budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council, if desired. Then a final budget is prepared by the City Administrator. A public hearing on the budget is held by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts as requested by the various departments or citizens. Final amounts budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year-end.

Once the budget is adopted by the City Council, the City Administrator is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances.

The budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within their departments. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. The general fund had \$23,139 in outstanding encumbrances at September 30, 2011.

CITY OF CASTROVILLE, TEXAS

Required Supplemental Information
 Texas Municipal Retirement System Schedule of Funding Progress (Unaudited)
 For the Year Ended September 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2008	\$ 1,983,609	\$ 2,791,327	71.1%	\$ 807,718	\$1,260,194	64.1%
12/31/2009	\$ 2,245,502	\$ 3,111,006	72.2%	\$ 865,504	\$1,373,097	63.0%
12/31/2010 ¹	\$ 2,303,505	\$ 3,232,276	71.3%	\$ 928,771	\$1,405,299	66.1%
12/31/2010 ²	\$ 3,109,664	\$ 3,913,438	79.5%	\$ 803,774	\$1,405,299	57.2%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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SUPPLEMENTAL SECTION

CITY OF CASTROVILLE, TEXAS

Supplemental Information
 Combining Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2011

	SPECIAL REVENUE				
	Drainage Utility	Hotel Occupancy Fund	Alsatian House	Biry House	TBF Grant
ASSETS					
Cash and Cash Equivalents	\$ 88,428	\$ 28,089	\$ 4,956	\$ 12,820	\$ 1,277
Receivables (Net of Allowance for Uncollectibles)	-	5,131	-	-	-
Due from Other Funds	14,249	-	-	-	-
Total Assets	\$ 102,677	\$ 33,220	\$ 4,956	\$ 12,820	\$ 1,277
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 11,693	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	647	422	94	2	1,505
Deferred Revenue	-	-	-	-	-
Total Liabilities	12,340	422	94	2	1,505
Funds Balances					
Restricted	-	32,798	-	-	-
Committed	90,337	-	4,862	12,818	-
Unassigned	-	-	-	-	(228)
Total Fund Balances	90,337	32,798	4,862	12,818	(228)
TOTAL LIABILITIES AND FUND BALANCES	\$ 102,677	\$ 33,220	\$ 4,956	\$ 12,820	\$ 1,277

SPECIAL REVENUE

Lone Star Library Grant	Tocker Grant	Library Memorial Fund	Municipal Court Tech Fee	Police Department Training Fund	DEA Forfeiture Fund	Municipal Court Building Fund
\$ 994	\$ 1,854	\$ 3,416	\$ 25,202	\$ 3,987	\$ 5,674	\$ 5,936
-	-	-	-	-	-	-
500	-	960	8	1,240	-	23,030
<u>\$ 1,494</u>	<u>\$ 1,854</u>	<u>\$ 4,376</u>	<u>\$ 25,210</u>	<u>\$ 5,227</u>	<u>\$ 5,674</u>	<u>\$ 28,966</u>
\$ 1,404	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	5	38	307	1,241	451	11,385
-	-	-	-	-	-	-
<u>1,428</u>	<u>5</u>	<u>38</u>	<u>307</u>	<u>1,241</u>	<u>451</u>	<u>11,385</u>
66	1,849	4,338	24,903	3,986	5,223	17,581
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>66</u>	<u>1,849</u>	<u>4,338</u>	<u>24,903</u>	<u>3,986</u>	<u>5,223</u>	<u>17,581</u>
<u>\$ 1,494</u>	<u>\$ 1,854</u>	<u>\$ 4,376</u>	<u>\$ 25,210</u>	<u>\$ 5,227</u>	<u>\$ 5,674</u>	<u>\$ 28,966</u>

CITY OF CASTROVILLE, TEXAS

Supplemental Information
 Combining Balance Sheet (Continued)
 Nonmajor Governmental Funds
 September 30, 2011

	DEBT SERVICE				
	2003 C.O. I&S Fund	2004 C.O. I&S Fund	2006 Tax Notes I&S Fund	2004 G.O. I&S Fund	TXDOT I&S Fund
ASSETS					
Cash and Cash Equivalents	\$ 2,543	\$ 9,552	\$ 5,490	\$ -	-
Receivables (Net of Allowance for Uncollectibles)	248	671	325	-	-
Due from Other Funds	25	2,468	44	-	-
Total Assets	\$ 2,816	\$ 12,691	\$ 5,859	\$ -	-
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	-
Due to Other Funds	164	388	17	-	-
Deferred Revenue	248	670	325	-	-
Total Liabilities	412	1,058	342	-	-
Funds Balances					
Restricted	2,404	11,633	5,517	-	-
Committed	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	2,404	11,633	5,517	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,816	\$ 12,691	\$ 5,859	\$ -	-

<u>CAPITAL PROJECTS</u>	<u>TOTAL</u>
<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>
\$ 41,419	\$ 241,637
-	6,375
-	42,524
<u>\$ 41,419</u>	<u>\$ 290,536</u>
\$ 18,408	\$ 31,505
34,073	50,763
-	1,243
<u>52,481</u>	<u>83,511</u>
-	110,298
-	108,017
<u>(11,062)</u>	<u>(11,290)</u>
<u>(11,062)</u>	<u>207,025</u>
<u>\$ 41,419</u>	<u>\$ 290,536</u>

CITY OF CASTROVILLE, TEXAS

Supplemental Information
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended September 30, 2011

	SPECIAL REVENUE				
	Drainage Utility	Hotel Occupancy Fund	Alsatian House	Biry House	TBF Grant
REVENUES:					
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	44,861	-	-	-
Charges for Services	107,039	-	-	-	-
Fines and Forfeitures	320	-	-	-	-
Operating Grants	-	-	-	-	-
Interest	2,760	321	58	-	36
Miscellaneous	-	-	792	-	-
Total Revenues	<u>110,119</u>	<u>45,182</u>	<u>850</u>	<u>-</u>	<u>36</u>
EXPENDITURES:					
Current					
General Administration	-	46,060	100	-	-
Public Safety					
Municipal Court	-	-	-	-	-
Police Department	-	-	-	-	-
Public Transportation					
Streets	3,196	-	-	-	-
Culture and Recreation					
Library	-	-	-	-	5,117
Capital Outlay	54,150	-	-	-	-
Debt Service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	<u>57,346</u>	<u>46,060</u>	<u>100</u>	<u>-</u>	<u>5,117</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	52,773	(878)	750	-	(5,081)
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	-	-	-
Transfers Out	(105,217)	-	-	-	-
Total Other Financing Sources (Uses)	<u>(105,217)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Changes in Fund Balances	(52,444)	(878)	750	-	(5,081)
Fund Balance (Deficit) - Beginning of Year	142,781	33,676	4,112	12,818	4,853
Fund Balance (Deficit) - End of Year	<u>\$ 90,337</u>	<u>\$ 32,798</u>	<u>\$ 4,862</u>	<u>\$ 12,818</u>	<u>\$ (228)</u>

SPECIAL REVENUE

Lone Star Library Grant	Tocker Grant	Library Memorial Fund	Municipal Court Tech Fee	Police Department Training Fund	DEA Forfeiture Fund	Municipal Court Building Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	6,427	-	-	4,830
-	-	-	-	-	-	-
4,941	-	-	-	-	-	-
28	39	35	278	45	73	530
-	-	2,320	-	1,240	-	-
<u>4,969</u>	<u>39</u>	<u>2,355</u>	<u>6,705</u>	<u>1,285</u>	<u>73</u>	<u>5,360</u>
-	-	-	-	-	770	-
-	-	-	3,227	-	-	1,269
-	-	-	-	56	142	-
-	-	-	-	-	-	-
4,919	2,733	-	-	-	-	-
-	-	-	-	-	-	32,830
-	-	-	-	-	-	-
<u>4,919</u>	<u>2,733</u>	<u>-</u>	<u>3,227</u>	<u>56</u>	<u>912</u>	<u>34,099</u>
50	(2,694)	2,355	3,478	1,229	(839)	(28,739)
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
50	(2,694)	2,355	3,478	1,229	(839)	(28,739)
16	4,543	1,983	21,425	2,757	6,062	46,320
<u>\$ 66</u>	<u>\$ 1,849</u>	<u>\$ 4,338</u>	<u>\$ 24,903</u>	<u>\$ 3,986</u>	<u>\$ 5,223</u>	<u>\$ 17,581</u>

CITY OF CASTROVILLE, TEXAS

Supplemental Information

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

Nonmajor Governmental Funds

For the Year Ended September 30, 2011

	DEBT SERVICE				
	2003	2004	2006 Tax	2004	
	C.O.	C.O.	Notes	G.O.	TXDOT
	I&S	I&S	I&S	I&S	I&S
Fund	Fund	Fund	Fund	Fund	
REVENUES:					
Property Taxes	\$ 20,330	\$ 62,347	\$ 35,374	\$ -	\$ -
Other Taxes	-	-	-	-	-
Charges for Services	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Operating Grants	-	-	-	-	-
Interest	215	232	11	-	-
Miscellaneous	-	-	-	-	-
Total Revenues	<u>20,545</u>	<u>62,579</u>	<u>35,385</u>	<u>-</u>	<u>-</u>
EXPENDITURES:					
Current					
General Administration	157	581	404	-	-
Public Safety					
Municipal Court	-	-	-	-	-
Police Department	-	-	-	-	-
Public Transportation					
Streets	-	-	-	-	-
Culture and Recreation					
Library	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt Service					
Principal	70,000	27,160	31,000	-	-
Interest	56,088	31,322	3,525	-	-
Total Expenditures	<u>126,245</u>	<u>59,063</u>	<u>34,929</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(105,700)	3,516	456	-	-
OTHER FINANCING SOURCES (USES)					
Transfers In	105,217	-	-	-	-
Transfers Out	-	-	-	(1,486)	(373)
Total Other Financing Sources (Uses)	<u>105,217</u>	<u>-</u>	<u>-</u>	<u>(1,486)</u>	<u>(373)</u>
Net Changes in Fund Balances	(483)	3,516	456	(1,486)	(373)
Fund Balance (Deficit) - Beginning of Year	2,887	8,117	5,061	1,486	373
Fund Balance (Deficit) - End of Year	<u>\$ 2,404</u>	<u>\$ 11,633</u>	<u>\$ 5,517</u>	<u>\$ -</u>	<u>\$ -</u>

<u>CAPITAL PROJECTS</u>	<u>TOTAL</u>
<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>
\$ -	\$ 118,051
-	44,861
-	118,296
-	320
-	4,941
4,914	9,575
-	4,352
<u>4,914</u>	<u>300,396</u>
-	48,072
-	4,496
-	198
156,186	159,382
-	12,769
96,250	183,230
-	128,160
-	90,935
<u>252,436</u>	<u>627,242</u>
(247,522)	(326,846)
-	105,217
-	(107,076)
-	(1,859)
(247,522)	(328,705)
236,460	535,730
<u>\$ (11,062)</u>	<u>\$ 207,025</u>

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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*

To the Honorable Mayor and Members of City Council
City of Castroville, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Castroville, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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* (CONTINUED)

Compliance and Other Matters

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

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

San Antonio, Texas
February 10, 2012

