

**CITY OF CASTLE HILLS, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED  
DECEMBER 31, 2016**



CITY OF CASTLE HILLS, TEXAS  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED DECEMBER 31, 2016

CITY OFFICIALS

MAYOR

TIM HOWELL

MAYOR PRO TEM

FRANK PAUL

CITY COUNCIL

J.R. TREVINO

MATTHEW DAGGETT

JOHN SQUIRE

DOUGLAS A. GREGORY

CITY MANAGER

CURT VAN DE WALLE

CITY ATTORNEY

MICHAEL S. BRENNAN



CITY OF CASTLE HILLS, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2016

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
CITY OFFICIALS	ii
TABLE OF CONTENTS	iii
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS.....	10
STATEMENT OF NET POSITION.....	11
STATEMENT OF ACTIVITIES.....	12
BALANCE SHEET - GOVERNMENTAL FUNDS.....	13
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION.....	14
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS.....	15
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	16
NOTES TO BASIC FINANCIAL STATEMENTS.....	17
REQUIRED SUPPLEMENTARY INFORMATION.....	33
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND.....	34
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL – STREET REPAIR FUND.....	35
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL.....	36
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS.....	37
SCHEDULE OF CITY CONTRIBUTIONS.....	38
SUPPLEMENTARY INFORMATION.....	39
COMPARATIVE BALANCE SHEETS - GENERAL FUND.....	40
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND.....	41
COMPARATIVE BALANCE SHEETS - STREET REPAIR FUND.....	42
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - STREET REPAIR FUND.....	43
COMBINING BALANCE SHEETS - NONMAJOR FUNDS.....	44
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR FUNDS.....	46





## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Castle Hills, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Castle Hills, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Castle Hills' basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Castle Hills, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of city contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Castle Hills' basic financial statements as a whole. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.



Armstrong, Vaughan & Associates, P.C.

May 2, 2017

CITY OF CASTLE HILLS, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

This section of City of Castle Hills's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

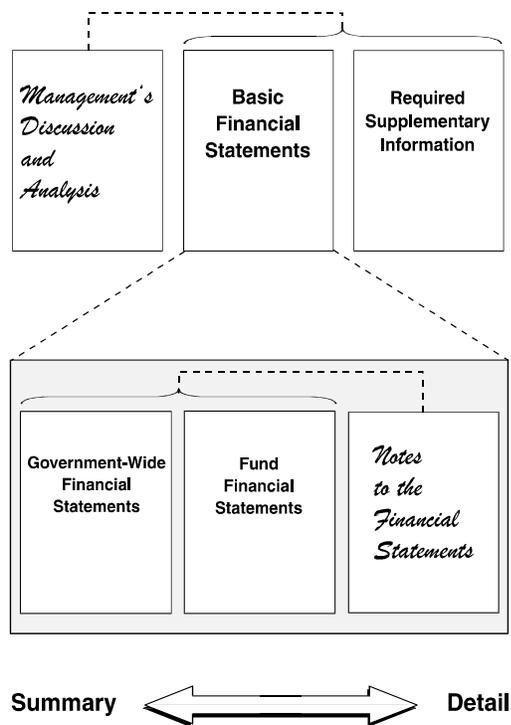
- The City's total net position was \$10.4 million at December 31, 2016.
- During the year, the City's expenses were \$701 thousand less than the \$7.5 million generated in taxes and other revenues for governmental activities.
- The total cost of the City's programs increased 13.3% from the previous year.
- The general fund reported a fund balance this year of \$5.1 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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



CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

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

CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2016

**GOVERNMENT-WIDE STATEMENTS**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as police, fire and general administration. Property taxes, sales taxes, franchise fees and charges for services finance most of these activities.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has Governmental Funds as follows:

- *Governmental funds*—All of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2016

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

**Net position.** The City's net position was \$10.4 million at December 31, 2016. (See Table A-1).

**Table A-1**  
City of Castle Hills Net Position

	Governmental Activities		Percentage
	2016	2015	Change
<i>Assets:</i>			
Cash and Investments	\$ 8,790,247	\$ 6,939,323	26.7%
Receivables	2,594,945	2,883,084	-10.0%
Prepaid Expenses	112,936	108,647	3.9%
Capital Assets (Net)	5,022,423	4,841,060	3.7%
<i>Total Assets</i>	<u>16,520,551</u>	<u>14,772,114</u>	<u>11.8%</u>
<i>Deferred Outflows:</i>			
Deferred Pension Related Outflows	1,272,887	566,805	124.6%
<i>Total Deferred Outflows</i>	<u>1,272,887</u>	<u>566,805</u>	<u>124.6%</u>
<i>Liabilities:</i>			
Accounts Payable and Accruals	929,437	534,417	73.9%
Deferred Revenues	307,470	-	100.0%
Long-term Liabilities	2,537,445	1,901,010	33.5%
<i>Total Liabilities</i>	<u>3,774,352</u>	<u>2,435,427</u>	<u>55.0%</u>
<i>Deferred Inflows:</i>			
Property Taxes Levied for Future Periods	3,206,324	2,920,458	9.8%
Deferred Pension Related Inflows	443,181	314,688	40.8%
<i>Total Deferred Inflows</i>	<u>3,649,505</u>	<u>3,235,146</u>	<u>12.8%</u>
<i>Net Position:</i>			
Net Invested in Capital Assets	5,022,423	4,841,060	3.7%
Restricted	1,708,165	1,298,809	31.5%
Unrestricted	3,638,993	3,528,477	3.1%
<i>Total Net Position</i>	<u>\$ 10,369,581</u>	<u>\$ 9,668,346</u>	<u>7.3%</u>

The \$3.6 million of unrestricted net position represents resources available to fund the programs of the City next year.

CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2016

**GOVERNMENTAL ACTIVITIES**

**Changes in net position.** The City's total revenues were \$7.5 million, an increase of 7.0%. A significant portion, 61%, comes from taxes, 27% percent relates to charges for services, and 7% comes from operating contributions.

The total cost of all programs and services was \$6.8 million. (See Table A-2).

**Table A-2**  
Changes in City of Castle Hills Net Position

	Governmental Activities		Percentage Change
	2016	2015	
Program Revenues:			
Charges for Services	\$ 2,022,884	\$ 1,878,954	7.7%
Operating Contributions	39,601	22,139	78.9%
General Revenues			
Property Taxes	2,909,859	2,657,447	9.5%
Franchise Fees	511,372	556,109	-8.0%
Sales Taxes	1,606,030	1,557,621	3.1%
License Agreements	190,000	190,000	0.0%
Investment Income	26,226	51,996	-49.6%
Miscellaneous	159,462	59,727	167.0%
Total Revenues	<u>7,465,434</u>	<u>6,973,993</u>	<u>7.0%</u>
Adminstration	997,651	850,221	17.3%
Municipal Court	313,296	312,893	0.1%
Police	2,410,168	2,297,244	4.9%
Fire	1,727,990	1,572,492	9.9%
Streets	838,974	468,631	79.0%
Sanitation	384,350	348,430	10.3%
Drainage	91,770	119,979	-23.5%
Total Expenses	<u>6,764,199</u>	<u>5,969,890</u>	<u>13.3%</u>
Increase (Decrease) in Net Position	<u>\$ 701,235</u>	<u>\$ 1,004,103</u>	<u>-30.2%</u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by local governments as well as local tax dollars.

- The cost of all *governmental* activities this year was \$6.8 million.
- The amount that our taxpayers paid for these activities through property taxes was \$2.9 million.
- Some of the cost, \$2.0 million, was paid by those who directly benefited from the programs.

CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Table A-3**  
Net Cost of Selected City Functions

	Total Cost of Services			Net Cost (Revenue) of Services		
	2016	2015	% Change	2016	2015	% Change
Administration	\$ 997,651	\$ 850,221	17.3%	\$ 560,680	\$ 507,166	10.6%
Municipal Court	313,296	312,893	0.1%	(626,815)	(539,030)	16.3%
Police	2,410,168	2,297,244	4.9%	2,336,135	2,232,810	4.6%
Fire	1,727,990	1,572,492	9.9%	1,727,083	1,556,922	10.9%
Streets	838,974	468,631	79.0%	838,974	468,631	79.0%
Sanitation	384,350	348,430	10.3%	(70,829)	(106,206)	-33.3%
Drainage	91,770	119,979	-23.5%	(63,514)	(51,496)	23.3%

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

Revenues from governmental fund types totaled \$7.5 million, an increase of 7.0%. The City experienced an increase in charges for service, taxes, and building permits.

**General Fund Budgetary Highlights**

The City has a legally adopted budget for the General Fund. Revenues were \$168 thousand more than budgeted revenues and expenditures were \$149 thousand more than budgeted expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2016 the City had invested \$8.9 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. More detailed information about the City's capital assets is presented in the notes to the financial statements.

**Table A-4**  
City's Capital Assets

	2016	2015	Percentage Change
Land	\$ 383,700	\$ 383,700	0.00%
Buildings and Improvements	2,976,035	2,976,035	0.00%
Vehicles and Equipment	2,837,568	2,734,712	3.76%
Infrastructure	2,507,780	2,442,304	2.68%
Construction in Progress	168,459	7,125	2264.34%
Totals at Historical Cost	<u>8,873,542</u>	<u>8,543,876</u>	<u>3.86%</u>
Total Accumulated Depreciation	(3,851,119)	(3,702,816)	4.01%
Net Capital Assets	<u>\$ 5,022,423</u>	<u>\$ 4,841,060</u>	<u>3.75%</u>

CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2016

**Long Term Debt**

At year end, the City had no outstanding long term debt.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged. The economic outlook for Bexar County remains stable. The City's budget levels remain similar to previous years.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the City of Castle Hills citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall by phone at 210-342-2341.



## BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board (GASB). The sets of statements include:

- Government – wide financial statements
- Fund financial statements:
  - Governmental funds

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

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 7,492,426
Investments	1,297,821
Receivables (Net of Allowances for Uncollectible Accounts):	
Property Taxes	2,173,784
Sales and Franchise Fees	369,434
Garbage, Stormwater and Other Fees	51,727
Prepaid Expenses	112,936
Capital Assets:	
Land	383,700
Buildings and Improvements	2,976,035
Vehicles and Equipment	2,837,568
Infrastructure	2,507,780
Construction In Progress	168,459
Accumulated Depreciation	(3,851,119)
<b>TOTAL ASSETS</b>	<b>16,520,551</b>
<b>DEFERRED OUTFLOWS</b>	
Deferred Pension Related Outflows	1,272,887
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>1,272,887</b>
<b>LIABILITIES</b>	
<i>Current Liabilities:</i>	
Accounts Payable	861,387
Accrued Expenses	68,050
SAWS Capital Contribution Received in Advance	212,470
License Agreements Received in Advance	95,000
<i>Noncurrent Liabilities:</i>	
Net Pension Liability	2,190,844
Compensated Absences - Due within One Year	69,320
Compensated Absences - Due in more than One Year	277,281
<b>TOTAL LIABILITIES</b>	<b>3,774,352</b>
<b>DEFERRED INFLOWS</b>	
Property Taxes Levied for Future Periods	3,206,324
Deferred Pension Related Inflows	443,181
<b>TOTAL DEFERRED INFLOWS</b>	<b>3,649,505</b>
<b>NET POSITION</b>	
Restricted for:	
Street Repairs	446,055
Drainage Improvements	369,378
Police	710,676
Municipal Court	118,125
PEG Funds	44,331
Other	19,600
Net Investment in Capital Assets	5,022,423
Unrestricted	3,638,993
<b>TOTAL NET POSITION</b>	<b>\$ 10,369,581</b>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Functions and Programs</u>	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
Administration	\$ 997,651	\$ 436,258	\$ 713	\$ (560,680)
Municipal Court	313,296	940,111	-	626,815
Police	2,410,168	35,145	38,888	(2,336,135)
Fire Department	1,727,990	907	-	(1,727,083)
Streets	838,974	-	-	(838,974)
Sanitation	384,350	455,179	-	70,829
Drainage	91,770	155,284	-	63,514
<i>Total Governmental Activities</i>	<u>6,764,199</u>	<u>2,022,884</u>	<u>39,601</u>	<u>(4,701,714)</u>
<b>Total Government</b>	<u>\$ 6,764,199</u>	<u>\$ 2,022,884</u>	<u>\$ 39,601</u>	<u>(4,701,714)</u>
<b>General Revenues:</b>				
Taxes:				
Property Taxes				2,909,859
Franchise Fees				511,372
Sales Taxes				1,606,030
License Agreements				190,000
Investment Income				26,226
Miscellaneous				159,462
<b>Total General Revenues</b>				<u>5,402,949</u>
Change in Net Position				701,235
Net Position at Beginning of Year				<u>9,668,346</u>
Net Position at End of Year				<u>\$ 10,369,581</u>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	Major Funds		Total Nonmajor Funds	Total Governmental Funds
	General Fund	Street Repair Fund		
<b>ASSETS</b>				
Cash	\$ 5,754,818	\$ 429,497	\$ 1,308,111	\$ 7,492,426
Investments	1,297,821	-	-	1,297,821
Receivables (Net of Allowances for Uncollectible Accounts):				
Property Taxes	2,173,784	-	-	2,173,784
Sales and Franchise Fees	275,967	47,324	46,143	369,434
Garbage and Other Fees	41,282	-	10,445	51,727
Due from Other Funds	32,962	-	-	32,962
<b>TOTAL ASSETS</b>	<u>\$ 9,576,634</u>	<u>\$ 476,821</u>	<u>\$ 1,364,699</u>	<u>\$ 11,418,154</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<i>Liabilities:</i>				
Accounts Payable	\$ 811,663	\$ 11,766	\$ 37,958	\$ 861,387
Accrued Expenditures	68,050	-	-	68,050
Due to Other Funds	-	-	32,962	32,962
SAWS Contribution Received in Advance	212,470	-	-	212,470
License Agreements Received in Advance	-	19,000	76,000	95,000
<i>Total Liabilities</i>	<u>1,092,183</u>	<u>30,766</u>	<u>146,920</u>	<u>1,269,869</u>
<i>Deferred Inflows of Resources:</i>				
Unavailable Property Tax Revenue	184,773	-	-	184,773
Property Taxes Levied for Future Periods	3,206,324	-	-	3,206,324
<i>Total Deferred Inflows of Resources</i>	<u>3,391,097</u>	<u>-</u>	<u>-</u>	<u>3,391,097</u>
<i>Fund Balances:</i>				
Restricted For:				
Street Repairs	-	446,055	-	446,055
Drainage Improvements	-	-	369,378	369,378
Police	-	-	710,676	710,676
Municipal Court	-	-	118,125	118,125
PEG Funds	44,331	-	-	44,331
Other	-	-	19,600	19,600
Committed For:				
Street Maintenance	599,176	-	-	599,176
SAWS Project	343,730	-	-	343,730
Workstation Upgrade	26,144	-	-	26,144
Assigned for:				
Major Vehicle Purchases	536,949	-	-	536,949
Improvement Projects from CIED	481,734	-	-	481,734
Unassigned	3,061,290	-	-	3,061,290
<i>Total Fund Balances</i>	<u>5,093,354</u>	<u>446,055</u>	<u>1,217,779</u>	<u>6,757,188</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 9,576,634</u>	<u>\$ 476,821</u>	<u>\$ 1,364,699</u>	<u>\$ 11,418,154</u>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2016

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 6,757,188

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

Assets created from expenditures paid in advance are not considered financial resources and, therefore, are not reported in the governmental funds. 112,936

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 5,022,423

Property taxes receivable are not available to pay current period expenditures and, therefore, are deferred in the fund statements. 184,773

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

Net Pension Liability	(2,190,844)	
Pension Related Deferred Outflows	1,272,887	
Pension Related Deferred Inflows	<u>(443,181)</u>	(1,361,138)

Other noncurrent liabilities, including accrued compensated absences, are not due and payable in the current period and, therefore not reported in the governmental funds. (346,601)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 10,369,581

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Major Funds		Total Nonmajor Funds	Total Governmental Funds
	General Fund	Street Repair Fund		
<b>REVENUES</b>				
Ad Valorem Taxes	\$ 2,894,349	\$ -	\$ -	\$ 2,894,349
Sales Tax	1,090,861	261,090	254,080	1,606,031
Franchise Fees	511,372	-	-	511,372
Garbage Fees	455,179	-	-	455,179
Stormwater Fees	-	-	155,284	155,284
Building and Other Permits	428,029	-	-	428,029
Fines and Forfeitures	903,819	-	71,438	975,257
License Agreements	-	38,000	152,000	190,000
Investment Income	25,009	-	1,217	26,226
Miscellaneous	181,888	-	40,972	222,860
<b>TOTAL REVENUES</b>	<u>6,490,506</u>	<u>299,090</u>	<u>674,991</u>	<u>7,464,587</u>
<b>EXPENDITURES</b>				
Current:				
Administration	927,935	-	16,882	944,817
Municipal Court	284,429	-	28,338	312,767
Police	2,127,428	-	70,467	2,197,895
Fire	1,598,678	-	-	1,598,678
Streets	456,260	10,281	-	466,541
Sanitation	352,526	-	-	352,526
Drainage	1,630	-	108,436	110,066
Capital Outlay	596,775	120,140	296,963	1,013,878
<b>TOTAL EXPENDITURES</b>	<u>6,345,661</u>	<u>130,421</u>	<u>521,086</u>	<u>6,997,168</u>
Excess ( Deficiency) of Revenues Over (Under) Expenditures	144,845	168,669	153,905	467,419
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds on Sale of Capital Assets	12,500	-	79,000	91,500
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>12,500</u>	<u>-</u>	<u>79,000</u>	<u>91,500</u>
Net Change in Fund Balance	157,345	168,669	232,905	558,919
<b>FUND BALANCES - JANUARY 1</b>	<u>4,936,009</u>	<u>277,386</u>	<u>984,874</u>	<u>6,198,269</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 5,093,354</u>	<u>\$ 446,055</u>	<u>\$ 1,217,779</u>	<u>\$ 6,757,188</u>

See accompanying notes to basic financial statements.



CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**1. REPORTING ENTITY**

In evaluating how to define the government for financial purposes, management has considered all potential component units. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The City has the following component unit:

The Castle Hills Crime Control and Prevention District - This entity is legally separate from the City, and was created pursuant to Section 363.051, et Seq. of the Crime Control District Act. The District was created October 1, 2004 to act on behalf of the City of Castle Hills for promotion, development, and enhancement of crime control and prevention within the City. The District is governed by a board appointed by the City Council. For financial reporting purposes, the District is reported as if it were part of the City's operations because its purpose is to benefit the citizens of the City.

**2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers, if any, has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

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

Separate **fund financial statements** are provided for governmental funds. Two of the City's funds meet the criteria of a **major governmental fund**: General Fund and Street Repair Fund. The City's other nonmajor governmental funds are made up of several special revenue funds: Child Safety, Animal Control, Fiesta, Municipal Court Technology, Municipal Court Security, Municipal Court Efficiency, Police Seizure, Crime Control and Prevention District, Drainage and Citizens Improvement. The major funds are reflected in individual columns and the nonmajor funds are reflected in an aggregate column titled "Nonmajor Funds" in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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

**Governmental fund level financial statements** are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unavailable revenue. Property taxes which were levied and collected within 60 days of the fiscal period are considered revenue for the year ending December 31, 2016. Taxes receivable but not collected within 60 days are used to finance the budget of the fiscal year beginning January 1, 2017 and, accordingly, have been reflected as property taxes levied for future periods (a deferred inflow of resources) in the fund financial statements at December 31, 2016.

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

The government reports the following major governmental funds:

**The General Fund** is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, sales taxes, franchise fees, garbage fees, and fines and forfeitures. Primary expenditures are for administration, police, fire, street maintenance, and sanitation.

**The Street Repair Fund** is used to account for sales tax to be specifically used on the maintenance of streets within the City.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

**4. INVESTMENTS**

State statutes authorize the City to invest in (a) obligations of the United States or its agencies, and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) – (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market investments and local government investment pools. Those investments are stated at share price, which approximates fair value.

**5. ACCOUNTS RECEIVABLE**

Property taxes are levied based on taxable value at January 1, become due October 1 and are past due after the following January 31. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables are shown net of an allowance for uncollectible.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements. Receivables are shown net of an allowance for uncollectible.

**6. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Allowances have been established by management based on best available information for a variety of receivables as of December 31, 2016. Allowances for uncollectible accounts have been recorded in the General Fund for \$36,724 for property taxes.

**7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

**8. BUDGET**

An operating budget is adopted each fiscal year for all City funds. The budget is adopted on the GAAP basis of accounting. Additional budgetary information is provided in the required supplementary information.

**9. PREPAID ITEMS**

Payments to vendors that reflect costs applicable to future periods are recognized as expenditures when paid in the fund financial statements. However, for the government-wide financial statements, these payments are recorded as prepaid expenses on the statement of net position.

**10. CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the governmental type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$1,000 or more with an estimated useful life in excess of one year. Infrastructure assets include City-owned streets, sidewalks, and curbs. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Buildings and Improvements	10 to 35 years
Drainage Improvements	25 to 30 years
Vehicles and Equipment	3 to 15 years
Streets	25 to 35 years

**11. COMPENSATED ABSENCES**

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The City's policy is to allow vacation no more than 160 hours for regular employees and 200 hours for Fire and Police employees to be carried over from year to year. Sick leave not used during the fiscal year in which it accrues accumulates and is available for use in succeeding years, and the City will pay 160 hours on termination for any employee's unused sick leave in excess of 1,200 hours.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

**12. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES**

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position and the balance sheet.

**13. UNAVAILABLE REVENUE / UNEARNED REVENUE**

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues not expected to be available for the current period are reflected as unavailable revenue. In addition property taxes levied to fund future periods are recorded on the financial statements as property taxes levied for future periods.

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues, if any, received in advance of expenses/expenditures are reflected as unearned revenue.

**14. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities in the statement of net position. On new bond issues, bond premiums and discounts, are amortized over the life of the bond. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period of issuance. 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.

**15. NET PENSION LIABILITY**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

**16. FUND EQUITY**

In the fund financial statements, governmental funds report the following classifications of fund balance:

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

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

**Committed** - Represents amounts that can be used only for the specific purposes determined by a formal action (adoption of an ordinance) of the government's highest level of decision-making authority (City Council). Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**Assigned** - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. Assignments may be created by the Council or City Manager.

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

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

**17. NET POSITION**

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

**18. INTERFUND TRANSACTIONS**

Legally authorized transfers, if any, are treated as interfund transfers and are included in the results of operations of Governmental Funds.

**19. USE OF ESTIMATES**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

20. RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no effect on the change in fund balance.

**NOTE B -- CASH AND INVESTMENTS**

1. Cash

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At December 31, 2016, all of the City's deposits were fully collateralized.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. The Act requires that the Council review the investment policy at least annually, investment officers obtain minimum investment training, and investment officers sign quarterly investment reports submitted to Council. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that the City had not complied with those provisions as the finance officer did not complete the required training class.

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE B -- CASH AND INVESTMENTS (Continued)**

2. Investments

The City's investments at December 31, 2016 are as shown below:

<u>Investment</u>	<u>Rating</u>	<u>Reported Value</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
<i>General Fund:</i>				
Certificates of Deposit		\$ 967,341	\$ 967,341	150
Texas CLASS External Investment Pool	AAAm	330,480	330,480	70
<i>Total Government</i>		<u>\$ 1,297,821</u>	<u>\$ 1,297,821</u>	

The certificates of deposit are fully collateralized under the City's depository agreement.

3. Analysis of Specific Deposit and Investment Risks

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

a. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

b. Credit Risk

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

c. Custodial Credit Risk

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

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE B -- CASH AND INVESTMENTS (Continued)**

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

**NOTE C -- PROPERTY TAXES**

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Bexar County Appraisal District. Assessed values are reduced by lawful exemptions to arrive at taxable values. The City uses the October 1 levy to fund the operations of the City for the following calendar year. Since the City has an enforceable legal claim to the property taxes, the receivable is recognized in the year of the levy but the revenue is recognized in the fiscal year for which it is budgeted. Thus, property tax revenue recognized on these 2016 financials is from the collections on the 2015 and prior levies. For the fund financial statements the City accrues property tax collections received within 60 days of year end as this is considered available financial resources to fund current operations.

The total taxable value as of January 1, 2016 upon which the fiscal 2016 levy (2015 tax year) was based was \$579,611,060 (i.e., market value less exemptions). The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt.

The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended December 31, 2016, was \$0.501345 per \$100 of assessed value, which means that the City has a tax margin of \$1.998655 for each \$100 of assessed value and could increase its annual levy by approximately \$11,584,425 based upon present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate. The current year delinquent tax receivable is \$31,674.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE D -- CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016 was as follows:

Governmental Activities	Balances at 1/1/2016	Additions	Disposals and Transfers	Balances at 12/31/2016
Land	\$ 383,700	\$ -	\$ -	\$ 383,700
Buildings and Improvements	2,976,035	-	-	2,976,035
Vehicles and Equipment	2,734,712	416,647	(313,791)	2,837,568
Infrastructure	2,442,304	65,476	-	2,507,780
Construction in Progress	7,125	161,334	-	168,459
	<u>8,543,876</u>	<u>643,457</u>	<u>(313,791)</u>	<u>8,873,542</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(1,289,196)	(92,220)	-	(1,381,416)
Vehicles and Equipment	(2,143,077)	(205,502)	233,216	(2,115,363)
Infrastructure	(270,543)	(83,797)	-	(354,340)
	<u>(3,702,816)</u>	<u>(381,519)</u>	<u>233,216</u>	<u>(3,851,119)</u>
Governmental Capital Assets, Net	<u>\$ 4,841,060</u>	<u>\$ 261,938</u>	<u>\$ (80,575)</u>	<u>\$ 5,022,423</u>

Land and construction in progress are not depreciated.

Depreciation Expense was charged to the governmental functions as follows:

Administration	\$ 78,807
Municipal Court	2,213
Police	137,570
Fire	24,344
Streets	110,664
Sanitation	27,921
Total Depreciation Expense	<u>\$ 381,519</u>

**NOTE E -- INTERFUND BALANCES**

At December 31, 2016, the nonmajor governmental funds owed \$32,962 to the general fund for short-term cash flow borrowings.

CITY OF CASTLE HILLS, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016

**NOTE F – EMPLOYEE RETIREMENT SYSTEM**

Texas Municipal Retirement System

**Plan Description**

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the state of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**Benefits Provided**

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

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

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

	2014	2015
Inactive employees or beneficiaries currently receiving benefits	44	42
Inactive employees entitled to but not yet receiving benefits	29	34
Active employees	61	63
	134	139

**Contributions**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE F – EMPLOYEE RETIREMENT SYSTEM (Continued)**

**Contributions (Continued)**

For the year ending December 31, 2016, employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.30% and 12.12% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended December 31, 2016 were \$420,402 and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary Increases	3.50% to 10.50%, including inflation
Investment Rate of Return*	6.75%

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term funding needs of TMRS.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE F -- EMPLOYEE RETIREMENT SYSTEM (Continued)**

**Actuarial Assumptions (Continued)**

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
	<u>100.00%</u>	

**Discount Rate**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE F-- EMPLOYEE RETIREMENT SYSTEM (Continued)**

**Changes in the Net Pension Liability**

The below schedule presents the changes in the Net Pension Liability as of December 31, 2015:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 15,341,816	\$ 13,724,460	\$ 1,617,356
Changes for the year:			
Service Cost	475,976	-	475,976
Interest	1,069,749	-	1,069,749
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(302,567)	-	(302,567)
Changes of Assumptions	(1,015)	-	(1,015)
Contributions - Employer	-	433,297	(433,297)
Contributions - Employee	-	228,052	(228,052)
Net Investment Income	-	20,251	(20,251)
Benefit Payments, Including Refunds of Employee Contributions	(595,341)	(595,341)	-
Administrative Expense	-	(12,335)	12,335
Other Changes	-	(610)	610
Net Changes	<u>646,802</u>	<u>73,314</u>	<u>573,488</u>
Balance at December 31, 2015	<u>\$ 15,988,618</u>	<u>\$ 13,797,774</u>	<u>\$ 2,190,844</u>

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability (Asset)	\$ 4,444,330	\$ 2,190,844	\$ 343,590

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE F -- EMPLOYEE RETIREMENT SYSTEM (Continued)**

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

For the year ended December 31, 2016, the City recognized pension expense of \$422,508. Also as of December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ 442,408
Changes in Actuarial Assumptions	-	773
Differences Between Projected and Actual Investment Earnings	852,485	-
Contributions Subsequent to the Measurement Date	420,402	-
	\$ 1,272,887	\$ 443,181

Deferred outflows of resources in the amount of \$420,402 is related to contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Plan Year ended December 31,	
2016	\$ 46,375
2017	46,375
2018	142,227
2019	174,327
	\$ 409,304

**NOTE G -- OTHER POST EMPLOYMENT BENEFITS**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operating by the Texas Municipal Retirement System (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.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

**NOTE G -- OTHER POST EMPLOYMENT BENEFITS**

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 2016, 2015, and 2014 were \$6,244, \$5,539, and \$5,376, respectively.

**NOTE H -- CONTINGENCIES AND COMMITMENTS**

Litigation

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

Commitments

The City entered into a contract with Klotz & Associates for the phase two drainage analysis for \$50,000. The estimated future commitment for the drainage analysis is \$13,506. The City also entered into a contract with E-Z Bel Construction for street repairs for \$2,707,559. The City has spent \$2,170,237. SAWS agreed to pay the City \$2,053,711 for materials and construction used in the SAWS work. The estimated future commitment for the street repairs is \$537,322. The full amount from SAWS has been received as of December 31, 2016.

**NOTE I -- RISK MANAGEMENT**

The City has identified possible risk of losses arising from events such as the following: torts; theft of, damage to, or destruction of assets; errors and omissions; job-related illnesses or injuries to employees; acts of God.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified liability risks. TML is a multi-employer group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML. Liability by the City is generally limited to the contributed amounts up to coverage limits. Annual contributions for the plan year ending September 30, 2017 were \$61,289.

For risks related to workers compensation, the City participates in the Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$850,000 for the plan year ending October 31, 2017. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. The members of Deep East Texas Self Insurance Fund have no known premium liabilities for workers' compensation coverage excess of their contracted annual premium. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to more than cover more than 100% of all liabilities. Annual contributions for the plan year ending October 31, 2017 were \$57,500.



## REQUIRED SUPPLEMENTARY INFORMATION

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

- Budgetary Comparison Schedule – General Fund
- Schedule of Changes – Net Pension Liability
- Schedule of Pension Contributions

CITY OF CASTLE HILLS, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget Amounts		Actual Amounts	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Ad Valorem Tax	\$ 2,902,000	\$ 2,902,000	\$ 2,894,349	\$ (7,651)
Sales Tax	1,045,000	1,045,000	1,090,861	45,861
Franchise Fees	500,000	500,000	511,372	11,372
Garbage Fees	458,500	458,500	455,179	(3,321)
Building and Other Permits	283,500	283,500	428,029	144,529
Fines and Forfeitures	1,018,000	1,018,000	903,819	(114,181)
Investment Income	15,000	15,000	25,009	10,009
Capital Contributions	13,100	13,100	-	(13,100)
Miscellaneous	87,000	87,000	181,888	94,888
<b>TOTAL REVENUES</b>	<u>6,322,100</u>	<u>6,322,100</u>	<u>6,490,506</u>	<u>168,406</u>
<b>EXPENDITURES</b>				
<i>Current:</i>				
Administration	851,226	851,226	927,935	(76,709)
Municipal Court	291,493	291,493	284,429	7,064
Police	2,338,825	2,338,825	2,127,428	211,397
Fire	1,597,516	1,597,516	1,598,678	(1,162)
Streets	630,089	630,089	456,260	173,829
Sanitation	417,040	417,040	352,526	64,514
Drainage	3,500	3,500	1,630	1,870
Capital Outlay	67,000	67,000	596,775	(529,775)
<b>TOTAL EXPENDITURES</b>	<u>6,196,689</u>	<u>6,196,689</u>	<u>6,345,661</u>	<u>(148,972)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>125,411</u>	<u>125,411</u>	<u>144,845</u>	<u>19,434</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds on Sale of Capital Assets	-	-	12,500	12,500
Transfers In (Out)	(9,600)	(9,600)	-	9,600
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(9,600)</u>	<u>(9,600)</u>	<u>12,500</u>	<u>22,100</u>
Net Change in Fund Balance	<u>\$ 115,811</u>	<u>\$ 115,811</u>	<u>\$ 157,345</u>	<u>\$ 41,534</u>

CITY OF CASTLE HILLS, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL – STREET REPAIR FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Sales Tax	\$ 250,000	\$ 250,000	\$ 261,090	\$ 11,090
License Agreements	114,000	114,000	38,000	(76,000)
<b>TOTAL REVENUES</b>	<u>364,000</u>	<u>364,000</u>	<u>299,090</u>	<u>(64,910)</u>
<b>EXPENDITURES</b>				
<i>Current:</i>				
Streets	-	-	10,281	(10,281)
Capital Outlay	-	-	120,140	(120,140)
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>130,421</u>	<u>(130,421)</u>
Net Change in Fund Balance	<u>\$ 364,000</u>	<u>\$ 364,000</u>	<u>\$ 168,669</u>	<u>\$ 65,511</u>

CITY OF CASTLE HILLS, TEXAS  
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL  
DECEMBER 31, 2016

**Budgetary Information**

The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund, Street Repair Fund, and Crime Control and Prevention District.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level. Actual expenditures exceeded appropriations in the General Fund, Street Repair Fund, and Crime Control and Prevention District.

The City does not use encumbrances.

CITY OF CASTLE HILLS, TEXAS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS  
 LAST TWO PLAN YEARS

Total Pension Liability		
	2014	2015
Service Cost	\$ 373,750	\$ 475,976
Interest (on the Total Pension Liability)	1,039,608	1,069,749
Changes of Benefit Terms	-	-
Difference between Expected and Actual Experience	(417,323)	(302,567)
Change of Assumptions	-	(1,015)
Benefit Payments, Including Refunds of Employee Contributions	(637,785)	(595,341)
Net Change in Total Pension Liability	358,250	646,802
Total Pension Liability - Beginning	14,983,566	15,341,816
Total Pension Liability - Ending	<u>\$ 15,341,816</u>	<u>\$ 15,988,618</u>
Plan Fiduciary Net Position		
	2014	2015
Contributions - Employer	\$ 380,234	\$ 433,297
Contributions - Employee	209,084	228,052
Net Investment Income	745,640	20,251
Benefit Payments, Including Refunds of Employee Contributions	(637,785)	(595,341)
Administrative Expense	(7,786)	(12,335)
Other	(640)	(610)
Net Change in Plan Fiduciary Net Position	688,747	73,314
Plan Fiduciary Net Position - Beginning	13,035,713	13,724,460
Plan Fiduciary Net Position - Ending	<u>\$ 13,724,460</u>	<u>\$ 13,797,774</u>
Net Pension Liability (Asset) - Ending	\$ 1,617,356	\$ 2,190,844
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	89.46%	86.30%
Covered Employee Payroll	\$ 2,986,911	\$ 3,257,881
Net Pension Liability as a Percentage of Covered Employee Payroll	54.15%	67.25%

The schedule above reflects the changes in the net pension liability for the current year. GASB 68 requires 10 fiscal years of data to be provided in this schedule. The employer/ City will be required to build this schedule over the 10-year period; as such, the employer should retain the annual GASB packages to utilize in building this schedule.

CITY OF CASTLE HILLS, TEXAS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 SCHEDULE OF CITY CONTRIBUTIONS  
 LAST THREE FISCAL YEARS

**Schedule of Contributions:**

	2014	2015	2016
Actuarially Determined Contribution	\$ 380,831	\$ 433,317	\$ 420,402
Contributions in Relation to the Actuarially Determined Contribution	380,831	433,317	420,402
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
 Covered Employee Payroll	 \$ 2,986,913	 \$ 3,257,874	 \$ 3,468,364
 Contributions as a Percentage of Covered Employee Payroll	 12.75%	 13.30%	 12.12%

**Notes to the Schedule of Contributions:**

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including Inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

GASB 68 requires 10 fiscal years of data to be provided in the Schedule of Contributions; the City will build this report over the next 10-year period. The data in this schedule is based on the City's fiscal year end, not the valuation/measurement date as provided in the other schedules to this report.

## SUPPLEMENTARY INFORMATION

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

Such statements and schedules include:

- Comparative Statements – General Fund
- Comparative Statements – Street Repair Fund
- Combining Statements – Nonmajor Funds

CITY OF CASTLE HILLS, TEXAS  
COMPARATIVE BALANCE SHEETS  
GENERAL FUND  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Cash	\$ 5,754,818	\$ 4,731,662
Investments	1,297,821	1,038,945
Receivables (Net of Allowances for Uncollectible Accounts):		
Property Taxes	2,173,784	2,241,193
Sales and Franchise Fees	275,967	307,799
Garbage and Other Fees	41,282	39,812
Due from Other Funds	32,962	32,962
<b>TOTAL ASSETS</b>	<b>\$ 9,576,634</b>	<b>\$ 8,392,373</b>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<i>Liabilities:</i>		
Accounts Payable	\$ 811,663	\$ 175,725
Accrued Expenditures	68,050	190,918
SAWS Contribution Received in Advance	212,470	-
<i>Total Liabilities</i>	<b>1,092,183</b>	<b>366,643</b>
 <i>Deferred Inflows of Resources:</i>		
Unavailable Property Tax Revenue	184,773	169,263
Property Taxes Levied for Future Periods	3,206,324	2,920,458
<i>Total Deferred Inflows of Resources</i>	<b>3,391,097</b>	<b>3,089,721</b>
 <i>Fund Balance:</i>		
Restricted for:		
PEG Funds	44,331	36,549
Committed for:		
Street Maintenance	599,176	1,108,432
SAWS Project	343,730	-
Workstation Upgrade	26,144	13,044
Assigned for:		
Memorial Clock	-	10,004
Fire SCBA Purchases	-	50,000
Major Vehicle Purchases	536,949	552,371
Improvements from CIED	481,734	504,055
Unassigned	3,061,290	2,661,554
<i>Total Fund Balance</i>	<b>5,093,354</b>	<b>4,936,009</b>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 9,576,634</b>	<b>\$ 8,392,373</b>

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 GENERAL FUND  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>REVENUES</b>		
Ad Valorem Taxes	\$ 2,894,349	\$ 2,651,729
Sales Tax	1,090,861	1,055,446
Franchise Fees	511,372	556,109
Garbage Fees	455,179	455,185
Building and Other Permits	428,029	328,443
Fines and Forfeitures	903,819	818,740
Interest	25,009	51,090
Miscellaneous	181,888	83,569
<b>TOTAL REVENUES</b>	<b>6,490,506</b>	<b>6,000,311</b>
<b>EXPENDITURES</b>		
Current:		
Administration	927,935	756,914
Municipal Court	284,429	290,980
Police	2,127,428	2,089,123
Fire	1,598,678	1,545,523
Streets	456,260	318,355
Sanitation	352,526	318,888
Drainage	1,630	2,683
Sewer	-	-
Capital Outlay	596,775	123,344
<b>TOTAL EXPENDITURES</b>	<b>6,345,661</b>	<b>5,445,810</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	144,845	554,501
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds on Sale of Capital Assets	12,500	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>12,500</b>	<b>-</b>
Net Change in Fund Balance	157,345	554,501
<b>Fund Balance at Beginning of Year</b>	<b>4,936,009</b>	<b>4,381,508</b>
<b>Fund Balance at End of Year</b>	<b>\$ 5,093,354</b>	<b>\$ 4,936,009</b>

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEETS  
 STREET REPAIR FUND  
 DECEMBER 31, 2016 AND 2015

	<b>2016</b>	2015
<b>ASSETS</b>		
Cash	\$ 429,497	\$ 210,420
Sales Tax Receivable	47,324	45,317
License Agreement Receivable	-	38,000
<b>TOTAL ASSETS</b>	<b>\$ 476,821</b>	<b>\$ 293,737</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<i>Liabilities:</i>		
Accounts Payable	\$ 11,766	\$ 16,351
<i>Total Liabilities</i>	<b>11,766</b>	16,351
<i>Deferred Revenues:</i>		
License Agreements Received in Advance	19,000	16,351
<i>Total Deferred Inflows</i>	<b>19,000</b>	16,351
<i>Fund Balance - Restricted for Streets</i>	<b>446,055</b>	277,386
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 476,821</b>	<b>\$ 293,737</b>

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 STREET REPAIR FUND  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
<b>REVENUES</b>		
Sales Tax	\$ 261,090	\$ 252,625
License Agreements	<u>38,000</u>	<u>38,000</u>
<b>TOTAL REVENUES</b>	<u><b>299,090</b></u>	<u>290,625</u>
 <b>EXPENDITURES</b>		
Streets	10,281	10,222
Capital Outlay	<u>120,140</u>	<u>581,758</u>
<b>TOTAL EXPENDITURES</b>	<u><b>130,421</b></u>	<u>591,980</u>
 Net Change in Fund Balance	<b>168,669</b>	(301,355)
 <b>Fund Balances at Beginning of Year</b>	<u><b>277,386</b></u>	<u>578,741</u>
 <b>Fund Balances at End of Year</b>	<u><b>\$ 446,055</b></u>	<u>\$ 277,386</u>

CITY OF CASTLE HILLS, TEXAS  
 COMBINING BALANCE SHEETS  
 NONMAJOR FUNDS  
 DECEMBER 31, 2016  
 (WITH COMPARATIVE TOTALS FOR 2015)

	Child Safety	Animal Control	Fiesta	Municipal Court Technology	Municipal Court Security
<b>ASSETS</b>					
Cash	\$ 59,342	\$ 4,501	\$ 15,099	\$ 37,865	\$ 91,119
Accounts Receivable	-	-	-	-	-
Sales Tax Receivable	-	-	-	-	-
License Agreement Receivable	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 59,342</b>	<b>\$ 4,501</b>	<b>\$ 15,099</b>	<b>\$ 37,865</b>	<b>\$ 91,119</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<i>Liabilities:</i>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 13,474
Due to Other Funds	-	-	-	-	-
<i>Total Liabilities</i>	-	-	-	-	13,474
<i>Deferred Revenues:</i>					
License Agreements Received in Advance	-	-	-	-	-
<i>Total Deferred Revenues</i>	-	-	-	-	-
<i>Restricted Fund Balance</i>	59,342	4,501	15,099	37,865	77,645
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 59,342</b>	<b>\$ 4,501</b>	<b>\$ 15,099</b>	<b>\$ 37,865</b>	<b>\$ 91,119</b>

Municipal Court Efficiency	Police Seizure	Crime Control and Prevention District	Drainage Fund	Citizens Improvement Fund	<b>2016 Total</b>	2015 Total
\$ 2,615	\$ 206,828	\$ 452,504	\$ 438,238	\$ -	\$ <b>1,308,111</b>	\$ 958,296
-	-	-	10,445	-	<b>10,445</b>	10,445
-	-	46,143	-	-	<b>46,143</b>	48,518
-	-	-	-	-	-	152,000
<u>\$ 2,615</u>	<u>\$ 206,828</u>	<u>\$ 498,647</u>	<u>\$ 448,683</u>	<u>\$ -</u>	<u>\$ <b>1,364,699</b></u>	<u>\$ 1,169,259</u>
\$ -	\$ -	\$ 21,179	\$ 3,305	\$ -	\$ <b>37,958</b>	\$ 151,423
-	-	32,962	-	-	<b>32,962</b>	32,962
-	-	54,141	3,305	-	<b>70,920</b>	184,385
-	-	-	76,000	-	<b>76,000</b>	-
-	-	-	76,000	-	<b>76,000</b>	-
2,615	206,828	444,506	369,378	-	<b>1,217,779</b>	984,874
<u>\$ 2,615</u>	<u>\$ 206,828</u>	<u>\$ 498,647</u>	<u>\$ 448,683</u>	<u>\$ -</u>	<u>\$ <b>1,364,699</b></u>	<u>\$ 1,169,259</u>

CITY OF CASTLE HILLS, TEXAS  
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE – NONMAJOR FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (WITH COMPARATIVE TOTALS FOR 2015)

	Child Safety	Animal Control	Fiesta	Municipal Court Technology	Municipal Court Security
<b>REVENUES</b>					
Sales Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and Forfeitures	-	-	-	22,045	16,557
Stormwater Fees	-	-	-	-	-
License Agreement	-	-	-	-	-
Investment Income	-	-	-	-	-
Miscellaneous	17,433	1,736	21,803	-	-
<b>TOTAL REVENUES</b>	<u>17,433</u>	<u>1,736</u>	<u>21,803</u>	<u>22,045</u>	<u>16,557</u>
<b>EXPENDITURES</b>					
Administration	-	-	14,298	-	-
Municipal Court	-	-	-	15,815	12,523
Police	5,695	-	-	-	-
Drainage	-	-	-	-	-
Capital Outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>5,695</u>	<u>-</u>	<u>14,298</u>	<u>15,815</u>	<u>12,523</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,738	1,736	7,505	6,230	4,034
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds on Sale of Capital Assets	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	11,738	1,736	7,505	6,230	4,034
<b>Beginning Fund Balance</b>	<u>47,604</u>	<u>2,765</u>	<u>7,594</u>	<u>31,635</u>	<u>73,611</u>
<b>Ending Fund Balance</b>	<u>\$ 59,342</u>	<u>\$ 4,501</u>	<u>\$ 15,099</u>	<u>\$ 37,865</u>	<u>\$ 77,645</u>

Municipal Court Efficiency	Police Seizure	Crime Control and Prevention District	Drainage Fund	Citizens Improvement Fund	2016 Total	2015 Total
\$ -	\$ -	\$ 254,080	\$ -	\$ -	\$ 254,080	\$ 249,550
691	32,145	-	-	-	71,438	82,823
-	-	-	155,284	-	155,284	171,475
-	-	-	152,000	-	152,000	152,000
-	256	961	-	-	1,217	906
-	-	-	-	-	40,972	26,649
691	32,401	255,041	307,284	-	674,991	683,403
-	-	-	-	2,584	16,882	13,181
-	-	-	-	-	28,338	22,939
-	10,562	54,210	-	-	70,467	139,797
-	-	-	108,436	-	108,436	210,628
-	-	296,963	-	-	296,963	98,666
-	10,562	351,173	108,436	2,584	521,086	485,211
691	21,839	(96,132)	198,848	(2,584)	153,905	198,192
-	-	79,000	-	-	79,000	-
-	-	79,000	-	-	79,000	-
691	21,839	(17,132)	198,848	(2,584)	232,905	198,192
1,924	184,989	461,638	170,530	2,584	984,874	786,682
\$ 2,615	\$ 206,828	\$ 444,506	\$ 369,378	\$ -	\$ 1,217,779	\$ 984,874

