

SHAREHOLDERS:

Nancy L. Vaughan, CPA  
Deborah F. Fraser, CPA



Armstrong, Vaughan & Associates, P.C.  
Certified Public Accountants

To the Council and Management  
City of Castle Hills

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Castle Hills for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated December 13, 2011. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Castle Hills are described in Note A to the financial statements. The City implemented Governmental Accounting Standard No. 54 in 2011 changing the classification of governmental fund balances. Except for this change, no new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Useful lives of depreciable assets
- Allowance for uncollectible accounts

The useful lives of the depreciable assets are based on past history, engineering estimates, and industry standards. The allowance for uncollectible accounts is based on property tax collection history and aging. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

##### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 30, 2012.

##### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in dealing with management in performing and completing our audit.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: Entries to record police seizure and training activity, correct accounts payable for software and payroll withholding errors, and correct credit card receivables for posting errors.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

During the current audit we became aware of the following issues for consideration:

#### **Segregation of Duties**

Cities with limited administrative staff tend to struggle with maintaining effective levels of segregation of duties to create a control structure with checks and balances. In 2011, the City increased the number of people involved in creating financial statements to two individuals. The City now has the opportunity to spread activities across these individuals to maximize checks and balances.

Suggestion: We recommend the City evaluate the duties of the two positions and assign responsibilities so that any one individual does not have complete access to one area, particularly payroll direct deposit submission from payroll recording.

*Compliance with Public Funds Investment Act*

The Public Funds Investment Act requires that we include, as part of our audit, procedures to determine if the City of Castle Hills complied with the provisions of the Act. We found, as a result of our tests, that the City has complied, in all material respects, with the provisions of the Act.

This information is intended solely for the use of the audit committee of the City of Castle Hills and is not intended to be and should not be used by anyone other than these specified parties.

*Armstrong, Vaughan & Associates, P.C.*

Armstrong, Vaughan & Associates, P.C.

March 30, 2012

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### **Material Weaknesses in Internal Controls**

March 30, 2012

To the City Council and Management  
City of Castle Hills, Texas

In planning and performing our audit of the financial statements of the City of Castle Hills as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our audit 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the following deficiencies in the City of Castle Hills' internal control to be material weaknesses:

#### **Financial Statement Preparation**

For the year ended December 31, 2011, management requested us to prepare the draft of the City's financial statements, including the related notes to financial statements. As a result, certain adjustments were required to be made to the accounting records such as recording accounts receivable, payables, and prepaid insurance. Cities with limited staff and resources tend to have difficulty preparing the annual financial reports and applying all of the necessary accounting principles to be in compliance with generally accepted accounting principles (GAAP). However, recent auditing standards have clarified that internal control is the same for all entities, regardless of size. We cannot be considered part of the City's internal controls (which includes the preparation of the financial statements), so the fact that we prepared the draft financial statements and related notes represents a control deficiency for the City.

**Suggestion:** To remedy the control deficiency, management may obtain training or hire additional consultants outside of the auditor to assist in the drafting of the financial statements. However, management may ultimately decide to accept the deficiency and continue to have the auditors prepare the draft financial statements. It is our responsibility to report this deficiency to ensure management has the information necessary to make an informed decision that is best for the City.

### **Significant Correcting Entries**

Audit procedures discovered significant correcting entries that needed to be made to the City's financial statements. These corrections were the result of unrecorded police seizure and training activities, payroll withholding errors, and interfund payables and receivables related to software setup issues. However, the City has improved greatly over the prior year, and these issues are not expected to continue.

Suggestion: The City should continue to be vigilant in recording all transactions and reconciling balance sheet accounts.

This communication is intended solely for the information and use of management and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

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

Armstrong, Vaughan & Associates, P.C.

**CITY OF CASTLE HILLS, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED  
DECEMBER 31, 2011**



CITY OF CASTLE HILLS, TEXAS  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR ENDED DECEMBER 31, 2011

CITY OFFICIALS

MAYOR

BRUCE SMILEY-KALIFF

MAYOR PRO TEM

TOM DAVIS

CITY COUNCIL

MARCELLA HUFF  
DOUGLAS A. GREGORY  
STEPHEN A. MCGUIRE  
TIM HOWELL

CITY MANAGER

MICHAEL STEELE

CITY ATTORNEY

MICHAEL S. BRENAN

AUDITOR

ARMSTRONG, VAUGHAN & ASSOCIATES, P.C.



CITY OF CASTLE HILLS, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2011

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## 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 the City of Castle Hills, Texas, as of and for the year ended December 31, 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 of Castle Hills, Texas', 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the City of Castle Hills, Texas, as of December 31, 2011, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 through 9 and 32 through 35 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 of Castle Hills, Texas' financial statements as a whole. The combining nonmajor and comparative fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor and comparative 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.

*Armstrong, Vaughan & Associates, P.C.*

Armstrong, Vaughan & Associates, P.C.

March 30, 2012

CITY OF CASTLE HILLS, TEXAS  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

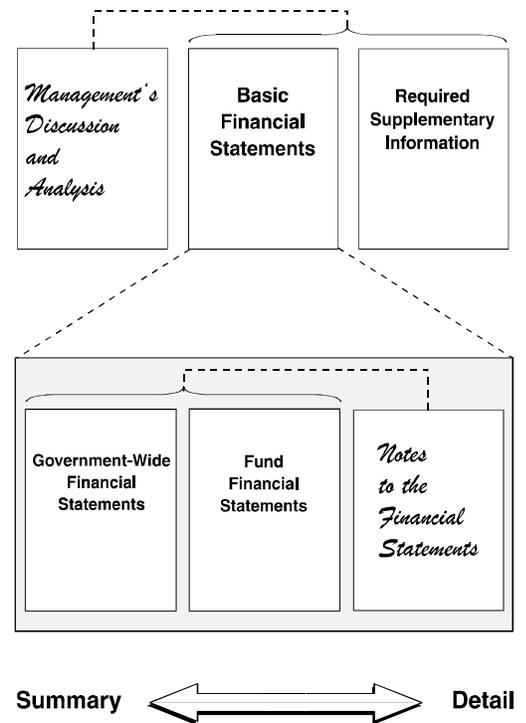
- The City's total net assets were \$7,546,386 at December 31, 2011.
- During the year, the City's expenses were \$326,593 less than the \$5,525,571 generated in taxes and other revenues for governmental activities.
- The total cost of the City's programs increased 1.8% from the previous year.
- The general fund reported a fund balance this year of \$2,497,026.

**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, 2011

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 assets	• 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, 2011

**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 assets 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 assets and how they have changed. Net assets—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 assets 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, 2011

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

**Net assets.** The City's net assets were \$7,546,386 at December 31, 2011. (See Table A-1).

**Table A-1**

City of Castle Hills Net Assets  
(In thousands dollars)

	Governmental Activities		Total % Change 2011-2010
	2011	2010	
<i>Assets:</i>			
Cash and Investments	\$ 5,169	\$ 4,677	10.5%
Receivables	1,964	1,794	9.5%
Prepaid Expenses	90	87	3.4%
Capital Assets (Net)	3,511	3,867	-9.2%
<i>Total Assets</i>	<u>\$ 10,734</u>	<u>\$ 10,425</u>	<u>3.0%</u>
<i>Liabilities:</i>			
Accounts Payable and Accruals	\$ 2,949	\$ 2,915	1.2%
Long-term Liabilities	238	291	-18.2%
<i>Total Liabilities</i>	<u>3,187</u>	<u>3,206</u>	<u>-0.6%</u>
<i>Net Assets:</i>			
Invested in capital assets	3,435	3,756	-8.5%
Restricted	1,803	1,474	22.3%
Unrestricted	2,309	1,989	16.1%
<i>Total Net Assets</i>	<u>7,547</u>	<u>7,219</u>	<u>4.5%</u>
 Total Liabilities and Net Assets	 <u>\$ 10,734</u>	 <u>\$ 10,425</u>	 <u>3.0%</u>

The \$2,308,911 of unrestricted net asset 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, 2011

**GOVERNMENTAL ACTIVITIES**

**Changes in net assets.** The City's total revenues were \$5,525,571, an increase of 4.3%. A significant portion, 75%, comes from taxes, while 22% percent relates to charges for services.

The total cost of all programs and services was \$5,198,978. (See Table A-2).

**Table A-2**  
Changes in City of Castle Hills Net Assets  
(In thousands dollars)

	Governmental Activities		Total Percentage Change 2011-2010
	2011	2010	
Program Revenues:			
Charges for Services	\$ 1,216	\$ 1,304	-6.7%
Operating Contributions	33	20	67.0%
General Revenues			
Property Taxes	2,389	2,236	6.8%
Franchise Taxes	448	454	-1.4%
Sales Taxes	1,322	1,204	9.8%
Investment Income	34	43	-21.8%
Gain on Capital Asset Disposals	-	4	-100.0%
Miscellaneous	84	34	146.7%
Total Revenues	<u>5,526</u>	<u>5,299</u>	<u>4.3%</u>
Administration	654	609	7.5%
Municipal Court	157	173	-9.4%
Police	1,986	1,889	5.1%
Fire	1,621	1,599	1.4%
Streets	309	370	-16.5%
Sanitation	418	410	1.9%
Drainage	49	48	1.8%
Interest on Long-term Debt	5	7	-26.0%
Total Expenses	<u>5,199</u>	<u>5,105</u>	<u>1.8%</u>
Increase (Decrease) in Net Assets	<u>\$ 327</u>	<u>\$ 194</u>	<u>68.3%</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 \$5,198,978.
- The amount that our taxpayers paid for these activities through taxes was \$4,158,626.
- Some of the cost (\$1,216,046) 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, 2011

**Table A-3**  
Net Cost of Selected City Functions  
(in thousands of dollars)

	Total Cost of Services			Net Cost (Revenue) of Services		
	2011	2010	% Change	2011	2010	% Change
Administration	\$ 654	\$ 609	7.5%	\$ 484	\$ 352	37.5%
Municipal Court	157	173	-9.4%	(352)	(353)	-0.3%
Police	1,986	1,889	5.1%	1,965	1,843	6.6%
Fire	1,621	1,599	1.4%	1,611	1,578	2.1%
Streets	309	370	-16.5%	309	370	-16.5%
Sanitation	418	410	1.9%	3	62	-95.2%
Drainage	49	48	1.8%	(75)	(78)	-3.5%

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$5,511,372, an increase of 4.2%. The increase is primarily the result of increased property and sales tax collections.

#### General Fund Budgetary Highlights

The City has legally adopted budgets for the General Fund and Crime Control and Prevention District. Amendments were made to the General Fund budget during the year to account for the loss of the dispatch revenue and increases to personnel and capital outlay. General Fund expenditures were \$359,328 less than budgeted expenditures. The Crime Control and Prevention District also did not exceed its budgeted expenditures.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2011 the City had invested \$3,510,517 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

**Table A-4**  
City's Capital Assets  
(In thousands of dollars)

	Governmental Activities		Total Percentage Change
	2011	2010	2011-2010
Land	\$ 384	\$ 384	0.00%
Buildings	2,898	2,898	0.00%
Vehicles and Equipment	1,905	1,879	1.40%
Infrastructure	527	527	0.00%
Totals at Historical Cost	5,714	5,688	0.46%
Total Accumulated Depreciation	(2,204)	(1,821)	21.02%
Net Capital Assets	\$ 3,511	\$ 3,867	-9.22%

More detailed information about the City's capital assets is presented in the notes to the financial statements.

CITY OF CASTLE HILLS, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Long-Term Debt**

At year-end, the City's long-term debt consisted of a capital lease and employee compensated absences as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

**Table A-5**  
City's Long Term Debt  
(In thousands of dollars)

	Governmental Activities		Total
	2011	2010	Percentage Change 2011-2010
Capital Lease	\$ 76	\$ 111	-31.82%
Compensated Absences	162	180	-9.78%
Total Long Term Debt	\$ 238	\$ 291	-18.19%

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

The 2012 fiscal year General Fund budget is built around a property tax decrease of \$13,673. The 2012 budget has \$5,328,627 in revenues and \$5,327,194 in expenditures. Expenditures are budgeted to decrease by 0.35% over the 2011 budgeted expenditures.

**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 ASSETS  
DECEMBER 31, 2011

	<u>Primary Government</u>	<u>Governmental Activities</u>
<b>ASSETS</b>		
Cash	\$ 3,768,478	
Investments	1,401,017	
Receivables (Net of Allowances for Uncollectible Accounts):		
Property Taxes	1,598,033	
Sales and Franchise Taxes	309,133	
Garbage, Stormwater and Other Fees	53,238	
Accrued Interest	3,500	
Prepaid Expenses	89,871	
Capital Assets:		
Land	383,700	
Buildings and Improvements	2,898,073	
Vehicles and Equipment	1,905,139	
Infrastructure	527,480	
Accumulated Depreciation	<u>(2,203,875)</u>	
<b>TOTAL ASSETS</b>	<b><u>\$ 10,733,787</u></b>	

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF NET ASSETS (CONTINUED)  
DECEMBER 31, 2011

	Primary Government
	Governmental Activities
<b>LIABILITIES AND NET ASSETS</b>	
<i>Liabilities:</i>	
Accounts Payable	\$ 138,086
Accrued Payroll Expenses	125,736
Net Pension Obligation	253,511
Deferred Property Tax Revenue	2,432,061
<i>Noncurrent Liabilities:</i>	
Due within One Year	69,427
Due in more than One Year	168,580
<b>TOTAL LIABILITIES</b>	<b>3,187,401</b>
<i>Net Assets:</i>	
<i>Restricted Net Assets:</i>	
Street Repairs	1,188,707
Drainage Improvements	156,639
Police	343,787
Municipal Court	106,077
Other	7,376
<i>Unrestricted Net Assets:</i>	
Investment in Capital Assets, Net of Related Debt	3,434,889
Unrestricted	2,308,911
<b>TOTAL NET ASSETS</b>	<b>7,546,386</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,733,787</b>

See accompanying notes to basic financial statements.



CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Net Revenue (Expense) and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
Administration	\$ 654,493	\$ 149,354	\$ 21,181	\$ (483,958)
Municipal Court	156,729	508,615	-	351,886
Police	1,986,015	8,631	12,227	(1,965,157)
Fire Department	1,621,248	10,628	-	(1,610,620)
Streets	308,783	-	-	(308,783)
Sanitation	417,672	414,679	-	(2,993)
Drainage	48,857	124,139	-	75,282
Interest on Long-Term Debt	5,181	-	-	(5,181)
<i>Total Governmental Activities</i>	<u>5,198,978</u>	<u>1,216,046</u>	<u>33,408</u>	<u>(3,949,524)</u>
<b>Total Government</b>	<u>\$ 5,198,978</u>	<u>\$ 1,216,046</u>	<u>\$ 33,408</u>	<u>(3,949,524)</u>
<b>General Revenues:</b>				
Taxes:				
Property Taxes				2,388,882
Franchise Taxes				447,718
Sales Taxes				1,322,026
Investment Income				33,618
Miscellaneous				83,873
<b>Total General Revenues</b>				<u>4,276,117</u>
Change in Net Assets				326,593
Net Assets at Beginning of Year				<u>7,219,793</u>
Net Assets at End of Year				<u>\$ 7,546,386</u>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	Major Funds		Total Nonmajor Funds	Total Governmental Funds
	General Fund	Street Repair Fund		
<b>ASSETS</b>				
Cash	\$ 2,131,547	\$ 1,149,502	\$ 487,429	\$ 3,768,478
Investments	1,300,417	-	100,600	1,401,017
Receivables (Net of Allowances for Uncollectible Accounts):				
Property Taxes	1,598,033	-	-	1,598,033
Sales and Franchise Taxes	232,616	39,205	37,312	309,133
Garbage and Other Fees	42,793	-	10,445	53,238
Accrued Interest	3,500	-	-	3,500
Due from Other Funds	4,394	-	-	4,394
<b>TOTAL ASSETS</b>	<b><u>\$ 5,313,300</u></b>	<b><u>\$ 1,188,707</u></b>	<b><u>\$ 635,786</u></b>	<b><u>\$ 7,137,793</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<i>Liabilities:</i>				
Accounts Payable	\$ 120,572	\$ -	\$ 17,513	\$ 138,085
Accrued Payroll Expenses	125,736	-	-	125,736
Deferred Property Tax Revenue	2,569,966	-	-	2,569,966
Due to Other Funds	-	-	4,394	4,394
<b>TOTAL LIABILITIES</b>	<b><u>2,816,274</u></b>	<b><u>-</u></b>	<b><u>21,907</u></b>	<b><u>2,838,181</u></b>
<i>Fund Balances:</i>				
Restricted For:				
Street Repairs	-	1,188,707	-	1,188,707
Drainage Improvements	-	-	156,639	156,639
Police	-	-	343,787	343,787
Municipal Court	-	-	106,077	106,077
Other	-	-	7,376	7,376
Assigned for:				
Memorial	10,004	-	-	10,004
Capital Purchases	384,889	-	-	384,889
Unassigned	2,102,133	-	-	2,102,133
<b>TOTAL FUND BALANCES</b>	<b><u>2,497,026</u></b>	<b><u>1,188,707</u></b>	<b><u>613,879</u></b>	<b><u>4,299,612</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 5,313,300</u></b>	<b><u>\$ 1,188,707</u></b>	<b><u>\$ 635,786</u></b>	<b><u>\$ 7,137,793</u></b>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 4,299,612

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

Assets created from expenses paid in advance are not considered financial  
resources and, therefore, are not reported in the governmental funds. 89,871

Capital Assets used in governmental activities are not financial resources and,  
therefore, are not reported in the governmental funds. 3,510,517

Other long-term assets are not available to pay for current-period expenditures  
and, therefore, are not reported in the governmental funds 137,904

Governmental funds report pension and other postemployment benefit  
contributions as expenditures when paid. However, in the statement of activities  
differences between pension plan and other postemployment benefits costs  
and contributions for the year are reported as an asset or obligation. (253,511)

Long-term liabilities, including accrued compensated absences, capital lease  
obligations are not due and payable in the current period and, therefore not  
reported in the governmental funds. (238,007)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 7,546,386

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Major Funds		Total Nonmajor Funds	Total Governmental Funds
	General Fund	Street Repair Fund		
<b>REVENUES</b>				
Ad Valorem Taxes	\$ 2,371,777	\$ -	\$ -	\$ 2,371,777
Sales Tax	902,766	215,440	203,821	1,322,027
Franchise Tax	447,718	-	-	447,718
Garbage Fees	414,679	-	-	414,679
Stormwater Fees	-	-	124,139	124,139
Building and Other Permits	141,693	-	-	141,693
Fines and Forfeitures	482,588	-	34,658	517,246
Investment Income	31,793	-	1,825	33,618
Miscellaneous	116,948	-	21,527	138,475
<b>TOTAL REVENUES</b>	<u>4,909,962</u>	<u>215,440</u>	<u>385,970</u>	<u>5,511,372</u>
<b>EXPENDITURES</b>				
Current:				
Administration	580,891	-	10,485	591,376
Municipal Court	115,770	-	40,315	156,085
Police	1,727,675	-	80,925	1,808,600
Fire	1,441,997	-	1,468	1,443,465
Streets	177,740	73,201	-	250,941
Sanitation	411,330	-	-	411,330
Drainage	-	-	48,857	48,857
Capital Outlay	53,833	-	18,000	71,833
Debt Service:				
Principal	35,302	-	-	35,302
Interest and Fiscal Charges	5,181	-	-	5,181
<b>TOTAL EXPENDITURES</b>	<u>4,549,719</u>	<u>73,201</u>	<u>200,050</u>	<u>4,822,970</u>
Net Change in Fund Balance	360,243	142,239	185,920	688,402
<b>FUND BALANCES - JANUARY 1</b>	<u>2,136,783</u>	<u>1,046,468</u>	<u>427,959</u>	<u>3,611,210</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 2,497,026</u>	<u>\$ 1,188,707</u>	<u>\$ 613,879</u>	<u>\$ 4,299,612</u>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 688,402
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays.</p>		(356,439)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		17,103
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net assets.</p>		35,302
<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>		
<p>Decrease in Prepaid Expenses</p>	\$ 2,999	
<p>Increase in Accrued Compensated Absences</p>	17,601	
<p>Increase in Net Pension Obligation</p>	(78,375)	
	(78,375)	(57,775)
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES		\$ 326,593

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**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 decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14, "The Financial Reporting Entity" and GASB Statement 39 "Determining Whether Certain Organizations are 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 assets 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, 2011

**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, State Homeland Security Grant, 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 deferred revenue. Property taxes which were levied and collected within 60 days of the fiscal period are considered revenue for the year ending December 31, 2011. Taxes receivable but not collected within 60 days are used to finance the budget of the fiscal year beginning January 1, 2011 and, accordingly, have been reflected as deferred revenue and taxes receivable in the fund financial statements at December 31, 2011.

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 and franchise taxes, 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, 2011

**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 deferred 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, 2011. An allowance for uncollectible property taxes in the General Fund has been recorded as \$25,624.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

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

**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.

**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 assets.

**10. CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$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.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

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

**12. DEFERRED/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 deferred revenue.

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.

**13. 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 assets. On new bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. 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 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.

**14. NET PENSION OBLIGATION**

The net pension obligation represents the cumulative difference between annual pension costs and the City's contribution to the plans, calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 27. Expenditures are recognized when they are paid or are expected to be paid with current available resources. The net pension obligation is reported as a non-current liability in the government-wide financial statements.

**15. 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 only be used for a specific purpose by a resolution of City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

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

15. FUND EQUITY (Continued)

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.

16. 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 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.

17. INTERFUND TRANSACTIONS

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

18. 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.

19. RECLASSIFICATIONS

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. These reclassifications had no effect on the change in fund balance.

**NOTE B -- CASH AND INVESTMENTS**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

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

1. Cash

At December 31, 2011, the carrying amount of the City's cash on hand was \$1,040 and the carrying amount of the City's deposits in the bank, net of outstanding checks, was \$3,767,438 and the bank balance was \$3,858,242. Of the bank balance, \$250,000 was covered by federal deposit insurance and the City's depository had pledged securities with a carrying value which approximates fair value of \$5,334,748 as collateral for all the City's deposits. 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 complied with those provisions.

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

The City's investments at December 31, 2011 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>Crime Control and Prevention District:</i>				
Certificate of Deposit		\$ 100,600	\$ 100,600	281
<i>General Fund:</i>				
US Treasury Notes		974,172	974,172	624
Texas CLASS External Investment Pool	AAAm	326,245	326,245	32
<i>Total Government</i>		<u>\$ 1,401,017</u>	<u>\$ 1,401,017</u>	462

The certificate of deposit is fully collateralized under the City's depository agreement.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

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

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.

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

**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 deferred to the fiscal year for which it is budgeted. Thus, property tax revenue recognized on these 2011 financials is from the collections on the 2010 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 01, 2010, upon which the fiscal 2011 levy (2010 tax year) was based was \$483,833,742 (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, 2011, 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 \$9,670,167 based upon present assessed valuation of \$483,833,742 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.

**NOTE D -- CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011 was as follows:

Governmental Activities	Balances at 1/1/2011	Additions	Disposals	Balances at 12/31/2011
Land	\$ 383,700	\$ -	\$ -	\$ 383,700
Buildings and Improvements	2,898,073	-	-	2,898,073
Vehicles and Equipment	1,878,780	45,415	(19,056)	1,905,139
Infrastructure	527,480	-	-	527,480
	<u>5,688,033</u>	<u>45,415</u>	<u>(19,056)</u>	<u>5,714,392</u>
Less Accumulated Depreciation				
Buildings and Improvements	(847,195)	(88,465)	-	(935,660)
Vehicles and Equipment	(883,506)	(294,594)	19,056	(1,159,044)
Infrastructure	(90,376)	(18,795)	-	(109,171)
	<u>(1,821,077)</u>	<u>(401,854)</u>	<u>19,056</u>	<u>(2,203,875)</u>
Governmental Capital Assets, Net	<u>\$ 3,866,956</u>	<u>\$ (356,439)</u>	<u>\$ -</u>	<u>\$ 3,510,517</u>

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

**NOTE D -- CAPITAL ASSETS (Continued)**

Depreciation Expense was charged to the governmental functions as follows:

Administration	\$ 64,963
Police	140,196
Fire	141,287
Streets	55,408
Total Depreciation Expense	\$ 401,854

Land is not depreciated.

**NOTE E -- LONG-TERM DEBT**

In January 2008, the City entered into a capital lease to lease purchase a Fire Truck. This is a 60 month lease purchase, with annual lease payments due in January 2009 through 2013. The present value of the lease payments is \$176,879 at an interest rate of 4.67%. A down payment of \$260,976 was made upon signing the lease. The vehicle is recorded as a capital asset of the City at a cost of \$437,855, and, as of December 31, 2011, \$342,986 had been recognized in depreciation.

Changes in the City's long-term debt during the fiscal year ending December 31, 2011 follow:

<u>Governmental Activities</u>	<u>Balance Outstanding 1/1/2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance Outstanding 12/31/2011</u>	<u>Due Within One Year</u>
Capital Lease	\$ 110,930	\$ -	\$ (35,302)	\$ 75,628	\$ 36,951
Accrued Compensated Absences	179,980	-	(17,601)	162,379	32,476
Totals	\$ 290,910	\$ -	\$ (52,903)	\$ 238,007	\$ 69,427

The annual requirements to amortize the capital lease as of December 31, 2011, including interest payments, are as follows:

<u>Year End December 31</u>	<u>Capital Lease</u>
2012	\$ 40,483
2013	40,483
Total Minimum Lease Payments	80,966
Less Interest	(5,338)
Present Value of Minimum Payments	\$ 75,628

CITY OF CASTLE HILLS, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2011

**NOTE F -- PENSION PLAN**

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide 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 by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153. 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	7.0%	7.0%
Matching ratio (city to employee)	1.5 to 1	1.5 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, Transfers	100% Repeating, Transfers
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 an 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. 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:

Fiscal Year	Annual Pension Cost	Actual Contribution Made	Percentage of APC Contributed	Increase in Net Pension Obligation
2009	\$ 372,041	\$ 285,118	77%	\$ 86,923
2010	393,071	304,858	78%	88,213
2011	410,923	332,548	81%	78,375

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

**NOTE F -- PENSION PLAN (Continued)**

Contributions (Continued)

Annual Required Contribution (ARC)	\$ 408,696
Interest on Net Pension Obligation	13,135
Adjustment to the ARC	<u>(10,908)</u>
Annual Pension Cost (APC)	410,923
Contributions Made	<u>(332,548)</u>
Increase (Decrease) in Net Pension Obligation	78,375
Net Pension Obligation (Asset), Beginning of Year	<u>175,136</u>
Net Pension Obligation (Asset), End of Year	<u><u>\$ 253,511</u></u>

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

Actuarial Valuation Date	12/31/2009	12/31/2010 - Original	12/31/2010 - New
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Amortization Period	27.9 years - Closed Period	27 years - Closed Period	27.1 years - Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
<b>Assumptions:</b>			
Investment Rate of Return	7.5%	7.5%	7.0%
Projected Salary Increases	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
Inflation Rate	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure 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 rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

CITY OF CASTLE HILLS, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2011

**NOTE F -- PENSION PLAN (Continued)**

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/10 (1)	\$ 5,226,260	\$ 8,279,409	63.1%	\$ 3,053,149	\$ 2,521,617	121.1%
12/31/10 (2)	10,085,740	12,212,039	82.6%	2,126,299	2,521,617	84.3%

*Actuarial valuations performed under the original fund structure (1) and the new fund structure (2).*

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.

**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.

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 2011, 2010, and 2009 were \$5,059, \$4,791, and \$5,760, respectively.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2011

**NOTE H -- SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES**

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.

**NOTE H -- RISK MANAGEMENT**

The City has identified possible risk of losses arising from events such as the following:

1. Torts.
2. Theft of, damage to, or destruction of assets.
3. Errors and omissions.
4. Job-related illnesses or injuries to employees.
5. 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, 2012 were \$56,334.

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 \$750,000 for the plan year ending October 31, 2011. 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, 2012 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 Funding Progress – Defined Benefit Pension Plan

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, 2011

	Budget		Actual	Variance With Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Ad Valorem Tax	\$ 2,425,000	\$ 2,425,000	\$ 2,371,777	\$ (53,223)
Sales Tax	813,600	813,600	902,766	89,166
Franchise Tax	405,000	405,000	447,718	42,718
Garbage Fees	407,000	407,000	414,679	7,679
Building and Other Permits	177,700	177,700	141,693	(36,007)
Fines and Forfeitures	542,500	542,500	482,588	(59,912)
Investment Income	60,000	60,000	31,793	(28,207)
Miscellaneous	127,800	59,800	116,948	57,148
<b>TOTAL REVENUES</b>	<u>4,958,600</u>	<u>4,890,600</u>	<u>4,909,962</u>	<u>19,362</u>
<b>EXPENDITURES</b>				
Current:				
Administration	591,050	630,179	580,891	49,288
Municipal Court	152,888	152,888	115,770	37,118
Police	1,898,836	1,898,836	1,727,675	171,161
Fire	1,436,354	1,436,354	1,441,997	(5,643)
Streets	272,839	272,839	177,740	95,099
Sanitation	410,468	410,468	411,330	(862)
Drainage	3,500	3,500	-	3,500
Capital Outlay	33,500	63,500	53,833	9,667
Debt Service:				
Principal	35,302	35,302	35,302	-
Interest	5,181	5,181	5,181	-
<b>TOTAL EXPENDITURES</b>	<u>4,839,918</u>	<u>4,909,047</u>	<u>4,549,719</u>	<u>359,328</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	<u>118,682</u>	<u>(18,447)</u>	<u>360,243</u>	<u>378,690</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	(90,000)	(90,000)	-	90,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(90,000)</u>	<u>(90,000)</u>	<u>-</u>	<u>90,000</u>
Net Change in Fund Balance	28,682	(108,447)	360,243	468,690
<b>FUND BALANCE - JANUARY 1</b>	<u>2,136,783</u>	<u>2,136,783</u>	<u>2,136,783</u>	<u>-</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 2,165,465</u>	<u>\$ 2,028,336</u>	<u>\$ 2,497,026</u>	<u>\$ 468,690</u>

CITY OF CASTLE HILLS, TEXAS  
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-  
BUDGET AND ACTUAL  
DECEMBER 31, 2011

**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 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 did not exceed appropriations in the General Fund or Crime Control and Prevention District.

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

CITY OF CASTLE HILLS, TEXAS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN  
 LAST SIX YEARS

CALENDAR YEAR	ACTUARIAL VALUE OF ASSETS **	ACTUARIAL ACCRUED LIABILITY*	FUNDING RATIO (1)/(2)	UNFUNDED ACTUARIAL ACCRUED LIABILITY	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
2005	\$ 4,906,545	\$ 6,131,503	80.0%	\$ 1,224,958	\$ 2,200,063	55.7%
2006	5,142,091	6,506,764	79.0%	1,364,673	2,300,885	59.3%
2007	5,356,153	8,166,427	65.6%	2,810,274	2,436,981	115.3%
2008	5,071,761	8,048,691	63.0%	2,976,930	2,546,004	116.9%
2009	5,076,075	8,014,070	63.3%	2,937,995	2,619,760	112.1%
2010 (1)	5,226,260	8,279,409	63.1%	3,053,149	2,521,617	121.1%
2010 (2)	10,085,740	12,212,039	82.6%	2,126,299	2,521,617	84.3%

\* As of December 31 of the preceding year, the date of the actuarial valuation.

\*\* Assets are stated at cost as of December 31 of the preceding year.

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

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

## OTHER SUPPLEMENTARY INFORMATION

Other 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, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
Cash	\$ 2,131,547	\$ 1,764,567
Investments	1,300,417	1,507,794
Receivables (Net of Allowances for Uncollectible Accounts):		
Property Taxes	1,598,033	1,427,928
Sales and Franchise Taxes	232,616	234,789
Garbage and Other Fees	42,793	36,596
Accrued Interest	3,500	8,248
Due from Other Funds	4,394	3,185
<b>TOTAL ASSETS</b>	<b>\$ 5,313,300</b>	<b>\$ 4,983,107</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
<i>Liabilities:</i>		
Accounts Payable	\$ 120,572	\$ 174,527
Accrued Payroll Expenses	125,736	122,585
Deferred Property Tax Revenue	2,569,966	2,547,744
Due to Other Funds	-	1,468
<i>Total Liabilities</i>	<b>2,816,274</b>	<b>2,846,324</b>
 <i>Fund Balance:</i>		
Assigned for Memorial and Capital Purchases	394,893	294,889
Unassigned	2,102,133	1,841,894
<i>Total Fund Balance</i>	<b>2,497,026</b>	<b>2,136,783</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 5,313,300</b>	<b>\$ 4,983,107</b>

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 GENERAL FUND  
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<b>REVENUES</b>		
Ad Valorem Taxes	\$ 2,371,777	\$ 2,222,272
Sales Tax	902,766	828,690
Franchise Taxes	447,718	453,973
Garbage Fees	414,679	348,623
Building and Other Permits	141,693	242,040
Fines and Forfeitures	482,588	497,943
Interest	31,793	41,053
Miscellaneous	116,948	101,971
<b>TOTAL REVENUES</b>	<b>4,909,962</b>	<b>4,736,565</b>
<b>EXPENDITURES</b>		
Current:		
Administration	580,891	533,408
Municipal Court	115,770	151,203
Police	1,727,675	1,670,686
Fire	1,441,997	1,376,120
Streets	177,740	248,696
Sanitation	411,330	403,797
Drainage	-	3,196
Capital Outlay	53,833	132,070
Debt Service:		
Principal	35,302	33,727
Interest	5,181	6,756
<b>TOTAL EXPENDITURES</b>	<b>4,549,719</b>	<b>4,559,659</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>360,243</b>	176,906
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers	-	(2,500)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	(2,500)
Net Change in Fund Balance	<b>360,243</b>	174,406
<b>Fund Balance at Beginning of Year</b>	<b>2,136,783</b>	1,962,377
<b>Fund Balance at End of Year</b>	<b>\$ 2,497,026</b>	\$ 2,136,783

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEETS  
 STREET REPAIR FUND  
 DECEMBER 31, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
Cash	\$ 1,149,502	\$ 1,007,750
Sales Tax Receivable	39,205	39,737
<b>TOTAL ASSETS</b>	<b>\$ 1,188,707</b>	<b>\$ 1,047,487</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<i>Liabilities:</i>		
Accounts Payable	\$ -	\$ 1,019
<i>Total Liabilities</i>	-	1,019
<i>Fund Balance - Restricted</i>	<b>1,188,707</b>	1,046,468
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,188,707</b>	<b>\$ 1,047,487</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, 2011 AND 2010

	2011	2010
<b>REVENUES</b>		
Sales Tax	\$ 215,440	\$ 197,823
<b>TOTAL REVENUES</b>	<b>215,440</b>	197,823
 <b>EXPENDITURES</b>		
Streets	73,201	61,767
<b>TOTAL EXPENDITURES</b>	<b>73,201</b>	61,767
 <b>Net Change in Fund Balance</b>	<b>142,239</b>	136,056
 <b>Fund Balances at Beginning of Year</b>	<b>1,046,468</b>	910,412
 <b>Fund Balances at End of Year</b>	<b>\$ 1,188,707</b>	\$ 1,046,468

CITY OF CASTLE HILLS, TEXAS  
 COMBINING BALANCE SHEETS  
 NONMAJOR FUNDS  
 DECEMBER 31, 2011  
 (WITH COMPARATIVE TOTALS FOR 2010)

	<u>Child Safety</u>	<u>Animal Control</u>	<u>Fiesta</u>	<u>Municipal Court Technology</u>	<u>Municipal Court Security</u>
<b>ASSETS</b>					
Cash	\$ 10,951	\$ 498	\$ 4,527	\$ 30,090	\$ 88,651
Certificates of Deposit	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
Sales Tax Receivable	-	-	-	-	-
Due from General Fund	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL ASSETS</b>	<u><u>\$ 10,951</u></u>	<u><u>\$ 498</u></u>	<u><u>\$ 4,527</u></u>	<u><u>\$ 30,090</u></u>	<u><u>\$ 88,651</u></u>
<b>LIABILITIES AND FUND BALANCE</b>					
<i>Liabilities:</i>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 13,347
Due to Other Funds	-	-	-	-	-
<i>Total Liabilities</i>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>13,347</u>
<i>Restricted Fund Balance</i>	<u>10,951</u>	<u>498</u>	<u>4,527</u>	<u>30,090</u>	<u>75,304</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 10,951</u></u>	<u><u>\$ 498</u></u>	<u><u>\$ 4,527</u></u>	<u><u>\$ 30,090</u></u>	<u><u>\$ 88,651</u></u>

Municipal Court Efficiency	Police Seizure	Crime Control and Prevention District	Drainage Fund	Citizens Improvement Fund	2011 Total	2010 Total
\$ 683	\$ 35,036	\$ 166,969	\$ 146,450	\$ 3,574	\$ 487,429	\$ 296,928
-	-	100,600	-	-	100,600	100,000
-	-	-	10,445	-	10,445	10,445
-	-	37,312	-	-	37,312	36,626
-	-	-	-	-	-	1,468
<b>\$ 683</b>	<b>\$ 35,036</b>	<b>\$ 304,881</b>	<b>\$ 156,895</b>	<b>\$ 3,574</b>	<b>\$ 635,786</b>	<b>\$ 445,467</b>
\$ -	\$ -	\$ 3,896	\$ 256	\$ 14	\$ 17,513	\$ 14,323
-	-	3,185	-	1,209	4,394	3,185
-	-	7,081	256	1,223	21,907	17,508
683	35,036	297,800	156,639	2,351	613,879	427,959
<b>\$ 683</b>	<b>\$ 35,036</b>	<b>\$ 304,881</b>	<b>\$ 156,895</b>	<b>\$ 3,574</b>	<b>\$ 635,786</b>	<b>\$ 445,467</b>

CITY OF CASTLE HILLS, TEXAS  
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE – NONMAJOR FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011  
 (WITH COMPARATIVE TOTALS FOR 2010)

	Child Safety	Animal Control	Fiesta	Municipal Court Technology	Municipal Court Security
<b>REVENUES</b>					
Sales Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Fines and Forfeitures	-	-	-	14,086	12,105
Stormwater Fees	-	-	-	-	-
Investment Income	-	-	-	-	-
Miscellaneous	12,227	377	8,923	-	-
<b>TOTAL REVENUES</b>	<u>12,227</u>	<u>377</u>	<u>8,923</u>	<u>14,086</u>	<u>12,105</u>
<b>EXPENDITURES</b>					
Administration	-	79	9,183	-	-
Municipal Court	-	-	-	21,397	18,037
Police	4,956	-	-	-	-
Fire	-	-	-	-	-
Drainage	-	-	-	-	-
Capital Outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>4,956</u>	<u>79</u>	<u>9,183</u>	<u>21,397</u>	<u>18,037</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,271</u>	<u>298</u>	<u>(260)</u>	<u>(7,311)</u>	<u>(5,932)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from Capital Asset Sales	-	-	-	-	-
Transfers In (Out)	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	7,271	298	(260)	(7,311)	(5,932)
<b>Beginning Fund Balance</b>	<u>3,680</u>	<u>200</u>	<u>4,787</u>	<u>37,401</u>	<u>81,236</u>
<b>Ending Fund Balance</b>	<u>\$ 10,951</u>	<u>\$ 498</u>	<u>\$ 4,527</u>	<u>\$ 30,090</u>	<u>\$ 75,304</u>

Municipal Court Efficiency	State Homeland Security Grant	Police Seizure	Crime Control and Prevention District	Drainage Fund	Citizens Improvement Fund	2011 Total	2010 Total
\$ -	\$ -	\$ -	\$ 203,821	\$ -	\$ -	\$ 203,821	\$ 177,239
886	-	7,581	-	-	-	34,658	28,104
-	-	-	-	124,139	-	124,139	125,828
-	-	233	1,575	-	17	1,825	1,665
-	-	-	-	-	-	21,527	21,593
886	-	7,814	205,396	124,139	17	385,970	354,429
-	-	-	-	-	1,223	10,485	12,305
881	-	-	-	-	-	40,315	10,725
-	-	12,115	63,854	-	-	80,925	116,811
-	1,468	-	-	-	-	1,468	-
-	-	-	-	48,857	-	48,857	44,471
-	-	18,000	-	-	-	18,000	256,009
881	1,468	30,115	63,854	48,857	1,223	200,050	440,321
5	(1,468)	(22,301)	141,542	75,282	(1,206)	185,920	(85,892)
-	-	-	-	-	-	-	5,500
-	-	-	-	-	-	-	2,500
-	-	-	-	-	-	-	8,000
5	(1,468)	(22,301)	141,542	75,282	(1,206)	185,920	(77,892)
678	1,468	57,337	156,258	81,357	3,557	427,959	505,851
\$ 683	\$ -	\$ 35,036	\$ 297,800	\$ 156,639	\$ 2,351	\$ 613,879	\$ 427,959

