

ANNUAL FINANCIAL REPORT

of the

**CITY OF
BUNKER HILL VILLAGE, TEXAS**

For the Year Ended
December 31, 2010

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CITY OF BUNKER HILL VILLAGE, TEXAS

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December 31, 2010

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Bunker Hill Village, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Bunker Hill Village, Texas (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial position of the governmental activities, the business-type activities and each major fund of the City as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, the budgetary comparison information, and schedules of funding progress are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

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Governmental
Audit Quality Center

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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
April 15, 2011

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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CITY OF BUNKER HILL VILLAGE, TEXAS

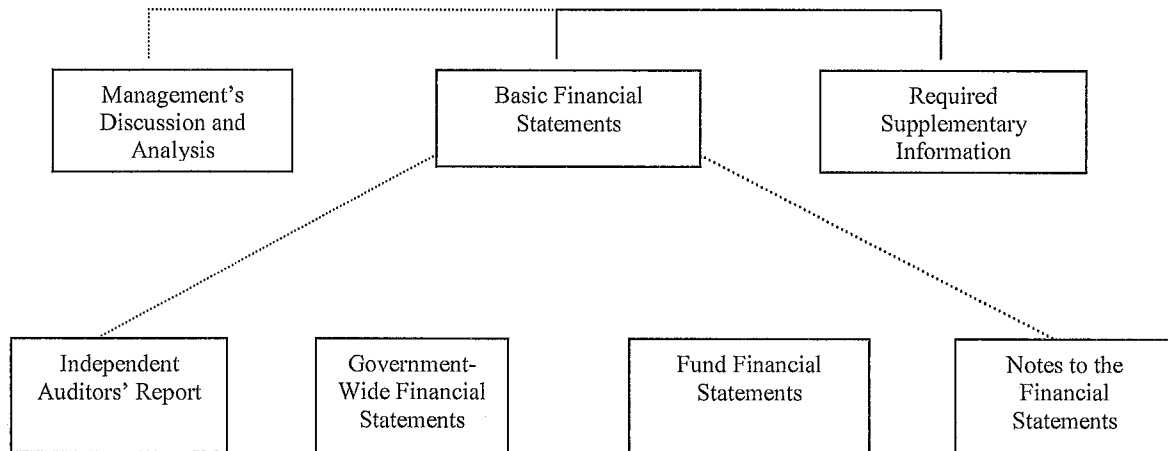
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

For the Year Ended December 31, 2010

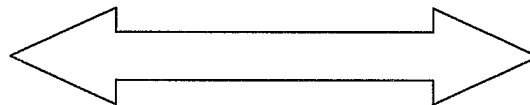
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Bunker Hill Village (the "City") for the year ending December 31, 2010. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



Summary



Detail

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

For the Year Ended December 31, 2010

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into two classes of activities:

1. Governmental Activities – Most of the City's basic services are reported here, including public safety (police, fire, EMS), community services (building permits/inspection), public works, and general government (City Administrator, City Secretary, Finance, Human Resources, Information Technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. Business-Type Activities – Services involving a fee for those services are reported here. These services include the City's water, wastewater, and sanitation services.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Bunker Hill Village. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund, and Metro fund, which are considered to be major funds for reporting purposes.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

For the Year Ended December 31, 2010

The City adopts an annual appropriated budget for its general fund, debt service fund, capital project fund, and Metro fund. A budgetary comparison schedule has been provided for each of these funds to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund, to account for all "business-like" activities. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the enterprise fund.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements, MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund, debt service fund, capital projects fund, and Metro fund and a schedule of funding progress for the Texas Municipal Retirement System.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$10,771,860 as of year end.

A large portion of the City's net assets, 43.6 percent, reflects its investments in capital assets (e.g., land, City hall, police station, fleet equipment, drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

CITY OF BUNKER HILL VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended December 31, 2010

Statement of Net Assets:

The following table provides a condensed Statement of Net Assets:

	2010			2009		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 7,750,556	\$ 1,977,211	\$ 9,727,767	\$ 8,668,448	\$ 2,102,448	\$ 10,770,896
Capital assets, net	11,919,874	4,580,757	16,500,631	11,162,083	4,341,248	15,503,331
Total Assets	19,670,430	6,557,968	26,228,398	19,830,531	6,443,696	26,274,227
Long-term liabilities	11,540,390	-	11,540,390	12,409,188	-	12,409,188
Other liabilities	3,901,879	14,269	3,916,148	3,950,976	14,201	3,965,177
Total Liabilities	15,442,269	14,269	15,456,538	16,360,164	14,201	16,374,365
Net Assets:						
Invested in capital assets, net of related debt	250,526	4,580,757	4,831,283	(1,247,105)	4,341,248	3,094,143
Restricted	1,619,713	-	1,619,713	2,329,695	-	2,329,695
Unrestricted	2,357,922	1,962,942	4,320,864	2,387,777	2,088,247	4,476,024
Total Net Assets	\$ 4,228,161	\$ 6,543,699	\$ 10,771,860	\$ 3,470,367	\$ 6,429,495	\$ 9,899,862

A portion of the primary government's net assets, 15 percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$4,320,864, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved due to increases in property tax revenue.

CITY OF BUNKER HILL VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended December 31, 2010

Statement of Activities:

The following table provides a summary of the City's changes in net assets:

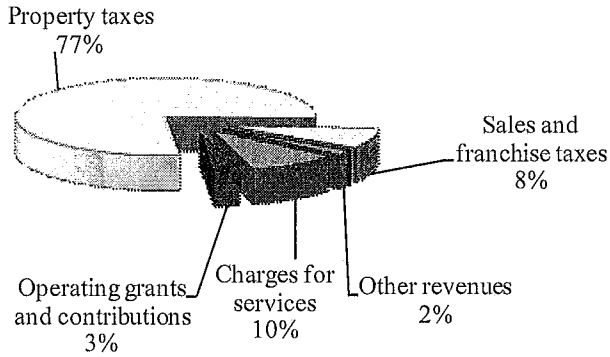
	2010			2009		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 442,660	\$ 2,224,757	\$ 2,667,417	\$ 436,800	\$ 2,268,075	\$ 2,704,875
Operating grants	129,000	-	129,000	129,000	-	129,000
General revenues:						
Ad valorem taxes	3,569,622	-	3,569,622	3,503,472	-	3,503,472
Sales, franchise, and other taxes	388,416	-	388,416	375,447	-	375,447
Investment income	14,622	3,750	18,372	74,594	16,886	91,480
Other revenues	73,721	-	73,721	110,771	-	110,771
Total Revenues	4,618,041	2,228,507	6,846,548	4,630,084	2,284,961	6,915,045
Expenses						
General government	515,989	-	515,989	517,555	-	517,555
Public safety	2,286,609	-	2,286,609	2,321,738	-	2,321,738
Public works	642,154	-	642,154	519,814	-	519,814
Interest and fees on debt	415,495	-	415,495	555,898	-	555,898
Public utilities	-	2,114,303	2,114,303	-	2,112,942	2,112,942
Total Expenses	3,860,247	2,114,303	5,974,550	3,915,005	2,112,942	6,027,947
Increase in Net Assets Before Transfers	757,794	114,204	871,998	715,079	172,019	887,098
Transfers	-	-	-	(50,897)	50,897	-
Change in Net Assets	757,794	114,204	871,998	664,182	222,916	887,098
Beginning Net Assets	3,470,367	6,429,495	9,899,862	2,806,185	6,206,579	9,012,764
Ending Net Assets	\$ 4,228,161	\$ 6,543,699	\$ 10,771,860	\$ 3,470,367	\$ 6,429,495	\$ 9,899,862

CITY OF BUNKER HILL VILLAGE, TEXAS

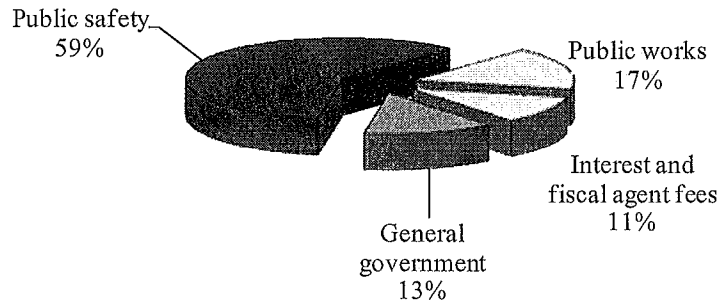
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

For the Year Ended December 31, 2010

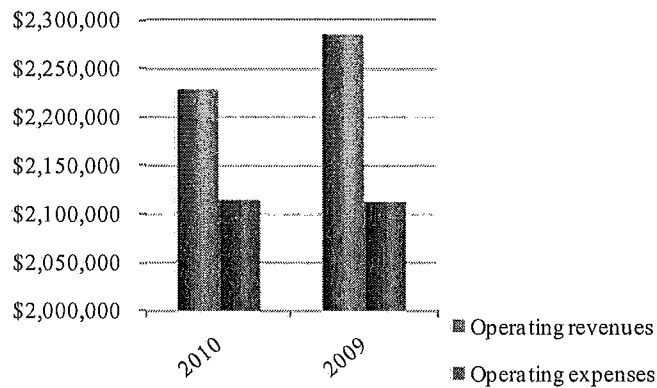
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



CITY OF BUNKER HILL VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended December 31, 2010

Governmental Activities

Total revenues for the governmental activities have decreased by 0.26 percent when compared to the previous year. This decrease is largely attributable to a decrease in interest revenue and other revenues. Expenses increased two percent compared to the previous year as a result of increased spending on community services.

Business-Type Activities

Overall, service revenues were up when compared to the previous year. This increase in revenue can be attributed to an increase in water and sanitation revenues received. Expenses decreased \$54,758 when compared to the previous year. This decrease was primarily a result of decreased spending on interest and fiscal agent fees.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of \$3,824,024. Of this, \$580,790 is reserved for debt service, \$100,567 is reserved for equipment replacement, and \$938,356 is reserved for Metro. There was a decrease in the combined fund balance of \$797,256 over the prior year due to construction projects.

The fund balance increased by \$31,675 in the general fund for a total of \$2,304,878 at year end due to an increase in property tax revenues.

The debt service fund balance increased by \$14,102 because revenue exceeded debt service requirements by this amount. A fund balance of \$580,790 remains at year end.

The capital project fund balance decreased by \$594,047 due to construction projects. No fund balance remains at year end.

The Metro fund balance decreased by \$248,986 for a total fund balance of \$938,356 at year end due to a increase in capital outlay.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City had a total positive budget variance of \$236,727 for the general fund. The majority of the variance was due to an increase in sales tax revenues and permits and licenses revenues received during the year. Expenditures were \$150,308 less than appropriated.

CITY OF BUNKER HILL VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended December 31, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – At the end of the year, the City's governmental activities had invested \$11,790,916 in a variety of capital assets and infrastructure.

The significant capital asset acquisitions during the current year included the following:

- Carolane Trail Drainage project at approximately \$807,600;
- Street overlay project at approximately \$139,400;

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

Long-Term Debt - At the end of the current year, the City had total certificates of obligation debt of \$7,025,000 and general obligation debt of \$4,525,000.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City continues to face challenges normal for a city environment and is seeking to provide the best services possible to its residents.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to City Administrator, City of Bunker Hill Village, 11977 Memorial Drive, Houston, Texas, 77024.

BASIC FINANCIAL STATEMENTS

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET ASSETS

December 31, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 4,838,227	\$ 1,134,619	\$ 5,972,846
Investments	750,000	500,000	1,250,000
Cash with agent	195,579	-	195,579
Receivables, net	1,854,677	454,665	2,309,342
Internal balances	112,073	(112,073)	-
	7,750,556	1,977,211	9,727,767
Deferred charges	128,958	-	128,958
Capital assets:			
Nondepreciable	24,944	9,163	34,107
Depreciable capital assets, net	11,765,972	4,571,594	16,337,566
	11,919,874	4,580,757	16,500,631
Total Assets	19,670,430	6,557,968	26,228,398
<u>Liabilities</u>			
Account payable and other current liabilities	183,507	9,052	192,559
Accrued interest payable	111,423	-	111,423
Deposits	10,860	5,217	16,077
Unearned revenue	3,593,794	-	3,593,794
Compensated absences	2,295	-	2,295
	3,901,879	14,269	3,916,148
Noncurrent liabilities:			
Due within one year	899,663	-	899,663
Due in more than one year	10,640,728	-	10,640,728
	11,540,390	-	11,540,390
Total Liabilities	15,442,269	14,269	15,456,538
<u>Net Assets</u>			
Invested in capital assets, net of related debt	250,526	4,580,757	4,831,283
Restricted for:			
Debt service	580,790	-	580,790
Metro	938,356	-	938,356
Construction	100,567	-	100,567
Unrestricted	2,357,922	1,962,942	4,320,864
Total Net Assets	\$ 4,228,161	\$ 6,543,699	\$ 10,771,860

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Sevices	Operating Grants and Contributions
Primary Government			
Governmental Activities:			
General government	\$ 515,989	\$ -	\$ -
Public safety	2,286,609	165,751	-
Public works	642,154	276,909	129,000
Interest on long-term debt	415,495	-	-
Total Governmental Activities	3,860,247	442,660	129,000
Business-Type Activities			
Water and sewer	2,114,303	2,224,757	-
Total Business-Type Activities	2,114,303	2,224,757	-
Total Primary Government	\$ 5,974,550	\$ 2,667,417	\$ 129,000

General Revenues:

- Property taxes
- Sales and franchise taxes
- Other
- Interest revenue

Total General Revenues

Change in Net Assets

Beginning net assets

Ending Net Assets

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (515,989)	\$ -	\$ (515,989)
(1,991,858)	-	(1,991,858)
(365,245)	-	(365,245)
(415,495)	-	(415,495)
<u>(3,288,587)</u>	<u>-</u>	<u>(3,288,587)</u>
<u>-</u>	<u>110,454</u>	<u>110,454</u>
<u>-</u>	<u>110,454</u>	<u>110,454</u>
<u>(3,288,587)</u>	<u>110,454</u>	<u>(3,178,133)</u>
3,569,622	-	3,569,622
388,416	-	388,416
73,721	-	73,721
14,622	3,750	18,372
<u>4,046,381</u>	<u>3,750</u>	<u>4,050,131</u>
757,794	114,204	871,998
3,470,367	6,429,495	9,899,862
<u>\$ 4,228,161</u>	<u>\$ 6,543,699</u>	<u>\$ 10,771,860</u>

CITY OF BUNKER HILL VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2010

	General	Debt Service	Capital Projects	Metro
<u>Current assets</u>				
Cash and cash equivalents	\$ 3,444,684	\$ 1,203,780	\$ -	\$ 189,763
Investments	-	-	-	750,000
Cash with agent	123,309	72,270	-	-
Receivables, net	1,200,914	653,763	-	-
Due from other funds	113,480	-	-	-
Total Assets	\$ 4,882,387	\$ 1,929,813	\$ -	\$ 939,763
 <u>Liabilities</u>				
Accounts payable	\$ 183,507	\$ -	\$ -	\$ -
Deposits	10,860	-	-	-
Due to other funds	-	-	-	1,407
Deferred revenue	2,383,142	1,349,023	-	-
Total Liabilities	2,577,509	1,349,023	-	1,407
 <u>Fund Balances</u>				
Reserved for:				
Debt service	-	580,790	-	-
Equipment replacement	100,567	-	-	-
Unreserved, undesignated reported in:				
General fund	2,204,311	-	-	-
Special revenue funds	-	-	-	938,356
Total Fund Balances	2,304,878	580,790	-	938,356
Total Liabilities and Fund Balances	\$ 4,882,387	\$ 1,929,813	\$ -	\$ 939,763

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

- Nondepreciable capital assets
- Depreciable capital assets, net

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

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

- Accrued interest payable
- Deferred charges
- Compensated absences
- Noncurrent liabilities due in one year
- Noncurrent liabilities due in more than one year

Net Assets of Governmental Activities

See Notes to Financial Statements

**Total
Governmental
Funds**

\$ 4,838,227
750,000
195,579
1,854,677
113,480
\$ 7,751,963

\$ 183,507
10,860
1,407
3,732,165
3,927,939

580,790
100,567
2,204,311
938,356
3,824,024

24,944
11,765,972

138,371

(111,423)
128,958
(2,295)
(899,663)
(10,640,728)
\$ 4,228,161

CITY OF BUNKER HILL VILLAGE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General	Debt Service	Capital Projects	Metro
Revenues				
Property taxes	\$ 2,213,711	\$ 1,344,597	\$ -	\$ -
Sales, franchise and other taxes	388,416	-	-	-
Permits and licenses	276,909	-	-	-
Fines and forfeitures	165,751	-	-	-
Intergovernmental	-	-	-	129,000
Interest on investments	9,525	2,198	625	2,274
Other revenue	73,721	-	-	-
Total Revenues	<u>3,128,033</u>	<u>1,346,795</u>	<u>625</u>	<u>131,274</u>
Expenditures				
Current:				
General government	491,726	-	-	20,769
Public safety	2,285,844	-	-	-
Public works	223,072	-	-	67,567
Debt Service:				
Principal	-	870,000	-	-
Interest and fiscal agent fees	-	462,693	-	-
Capital Outlay	95,716	-	594,672	291,924
Total Expenditures	<u>3,096,358</u>	<u>1,332,693</u>	<u>594,672</u>	<u>380,260</u>
Net Change in Fund Balances	31,675	14,102	(594,047)	(248,986)
Beginning fund balances	<u>2,273,203</u>	<u>566,688</u>	<u>594,047</u>	<u>1,187,342</u>
Ending Fund Balances	<u>\$ 2,304,878</u>	<u>\$ 580,790</u>	<u>\$ -</u>	<u>\$ 938,356</u>

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 3,558,308
388,416
276,909
165,751
129,000
14,622
73,721

4,606,727

512,495
2,285,844
290,639

870,000
462,693
982,312

5,403,983

(797,256)

4,621,280

\$ 3,824,024

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CITY OF BUNKER HILL VILLAGE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

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

Net changes in fund balances - total governmental funds \$ (797,256)

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 capital outlays exceeded depreciation in the current period.

Capital outlay	1,015,209
Depreciation	(386,376)

The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal payments	870,000
Compensated absences	(2,295)
Premium	3,078
Refunding difference	(4,280)
Issuance costs	(14,167)

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.	11,314
---	--------

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.	62,567
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Change in Net Assets of Governmental Activities	\$ 757,794
--	-------------------

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

December 31, 2010

	<u>Business - Type</u> <u>Activities</u> <u>Enterprise</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,134,619
Investments	500,000
Accounts receivable, net	454,665
Total Current Assets	<u>2,089,284</u>
Noncurrent assets:	
Nondepreciable capital assets	9,163
Depreciable capital assets	10,875,758
Less: accumulated depreciation	<u>(6,304,164)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>4,580,757</u>
Total Noncurrent Assets	<u>4,580,757</u>
Total Assets	<u>6,670,041</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	9,052
Customer deposits	5,217
Due to other funds	112,073
Total Current Liabilities	<u>126,342</u>
Total Liabilities	<u>126,342</u>
<u>Net Assets</u>	
Invested in capital assets	4,580,757
Unrestricted	<u>1,962,942</u>
Total Net Assets	<u>\$ 6,543,699</u>

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended December 31, 2010

	Business - Type Activities Enterprise
<u>Operating Revenues</u>	
Water and sewer billings	\$ 2,172,306
Other	52,451
Total Operating Revenues	2,224,757
 <u>Operating Expenses</u>	
Maintenance and operating expenses	1,717,444
Depreciation	396,859
Total Operating Expenses	2,114,303
Operating Income	110,454
 <u>Non-operating Revenues</u>	
Interest revenue	3,750
Total Nonoperating Revenues	3,750
Change in Net Assets	114,204
Beginning net assets	6,429,495
Ending Net Assets	\$ 6,543,699

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended December 31, 2010

	<u>Business-Type Activities Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,089,482
Payments to suppliers	(1,409,060)
Payments to employees	(397,183)
Net Cash Provided by Operating Activities	<u>283,239</u>
<u>Cash Flows from Capital Activities</u>	
Capital purchases	(636,368)
Net Cash (Used) by Noncapital Financing Activities	<u>(636,368)</u>
<u>Cash Flows from Investing Activities</u>	
Interest received	3,750
Net Cash Provided by Investing Activities	<u>3,750</u>
Net (Decrease) in Cash and Cash Equivalents	(349,379)
Beginning Cash and Cash Equivalents	<u>1,983,998</u>
Ending Cash and Cash Equivalents	<u>\$ 1,634,619</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 110,454
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	396,859
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(135,605)
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	(264)
Customer deposits	330
Due to other funds	(88,535)
Net Cash Provided by Operating Activities	<u>\$ 283,239</u>

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bunker Hill Village, Texas (the “City”) was organized in 1954. The City operates under the general laws of the State of Texas. The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Administrator is responsible for the appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police and fire services, municipal court, public works to include streets and drainage, water and sewer services, solid waste collection and disposal, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The statement includes the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City’s activities.
- A change in the fund financial statements to focus on the major funds.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: invested in capital assets, net of related debt, restricted, and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** — This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** — This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended December 31, 2010

Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures consist of all costs associated with the daily operations of the City.

Special Revenue Fund

The special revenue fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund is the Metro fund and is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital project fund is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The capital project fund is considered a major fund for reporting purposes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow generally accepted accounting principles (GAAP) prescribed by the GASB and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

The proprietary fund types used by the City include the following:

Enterprise Fund

The enterprise fund is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

D. Measurement Focus and Basis of Accounting

The government-wide Statements of Net Assets and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on long-term debt, which is recognized when due.

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

The Statements of Net Assets, Statements of Activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

The City's cash and cash equivalents consist of cash on hand and amounts deposited in checking accounts. In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for doubtful accounts.

Property taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) and are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 to 50 years
Machinery and equipment	5 to 10 years
Vehicles	4 to 20 years
Water, sewer, and gas system	20 to 65 years
Infrastructure	50 to 65 years

5. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended December 31, 2010

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund. Though a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Estimates

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP for the general fund and Metro fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget is the department level. The City Administrator may transfer appropriations between divisions within a department without seeking the approval of City Council. Appropriations lapse at the end of the year. No supplemental budget appropriations were made for the year ended.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2010, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 1,250,000	0.20

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of year end, market values of pledged securities and FDIC coverage exceeded bank balances for the City.

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise	Total
Accounts	\$ -	\$ -	\$ 458,536	\$ 458,536
Ad valorem	1,113,163	653,763	-	1,766,926
Sales taxes	74,154	-	-	74,154
Other	13,597	-	1,695	15,292
Less allowance	-	-	(5,566)	(5,566)
Totals	\$ 1,200,914	\$ 653,763	\$ 454,665	\$ 2,309,342

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended December 31, 2010

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 24,944	\$ -	\$ -	\$ 24,944
Total capital assets, not being depreciated	24,944	-	-	24,944
Capital assets, being depreciated:				
Buildings	399,685	-	-	399,685
Infrastructure	13,372,015	994,432	-	14,366,447
Machinery and equipment	133,032	20,777	-	153,809
Total capital assets being depreciated	13,904,732	1,015,209	-	14,919,941
Less accumulated depreciation for:				
Buildings	(75,741)	(8,669)	-	(84,410)
Infrastructure	(2,593,113)	(362,870)	-	(2,955,983)
Machinery and equipment	(98,739)	(14,837)	-	(113,576)
Total accumulated depreciation	(2,767,593)	(386,376)	-	(3,153,969)
Total capital assets, being depreciated, net	11,137,139	628,833	-	11,765,972
Governmental activities capital assets, net	\$ 11,162,083	\$ 628,833	\$ -	11,790,916
				Less associated debt (11,540,390)
				Invested in capital assets, net of related debt \$ 250,526

Depreciation was charged to governmental functions as follows:

General government	\$ 23,506
Public works	362,870
Total Governmental Activities Depreciation Expense	\$ 386,376

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

The following is a summary of changes in capital assets for business-type activities for the year ended:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 9,163	\$ -	\$ -	\$ 9,163
Total capital assets, not being depreciated	9,163	-	-	9,163
Capital assets, being depreciated:				
Buildings	1,036,160	-	-	1,036,160
Water rights	446,890	-	-	446,890
Machinery and equipment	358,202	-	-	358,202
Infrastructure	8,398,138	636,368	-	9,034,506
Total capital assets being depreciated	10,239,390	636,368	-	10,875,758
Less accumulated depreciation for:				
Buildings	(975,915)	(8,782)	-	(984,697)
Water rights	(446,890)	-	-	(446,890)
Machinery and equipment	(124,887)	(20,849)	-	(145,736)
Infrastructure	(4,359,613)	(367,228)	-	(4,726,841)
Total accumulated depreciation	(5,907,305)	(396,859)	-	(6,304,164)
Total capital assets, being depreciated, net	4,332,085	239,509	-	4,571,594
Governmental activities capital assets, net	\$ 4,341,248	\$ 239,509	\$ -	\$ 4,580,757

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 396,859
Total Governmental Activities Depreciation Expense	\$ 396,859

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended December 31, 2010

D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, notes, and other payables:					
Certificates of obligation	\$ 7,390,000	\$ -	\$ 365,000	\$ 7,025,000	* \$ 385,000
General obligation bonds	5,030,000	-	505,000	4,525,000	*
Premium	27,704	-	3,078	24,626	*
Refunding difference	(38,516)		(4,280)	(34,236)	*
Compensated absences	2,442		(147)	2,295	*
Total Governmental Activities	\$ 12,411,630	\$ -	\$ 868,798	\$ 11,540,390	\$ 899,663
			Long-term liabilities due in more than one year	\$ 10,640,728	
			* Debt associated with capital assets	\$ 11,540,390	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Governmental Activities		
Certificates of obligation		
Series 2002	4.00-4.65%	\$ 4,415,000
Series 2005	3.50-5.50%	2,610,000
Total certificates of obligation		7,025,000
General obligation bonds		
Refunding series 2009	2.00-3.38%	4,525,000
Total general obligation bonds		4,525,000
Total Governmental Activities Long-term Debt		\$ 11,550,000

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

The annual requirements to amortize bond and certificate debt issues outstanding at year ending were as follows:

Year Ending <u>Sept. 30</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2011	\$ 900,000	\$ 429,957	\$ 1,329,957
2012	930,000	398,770	1,328,770
2013	965,000	367,249	1,332,249
2014	1,000,000	334,851	1,334,851
2015	1,040,000	299,740	1,339,740
2016 - 2020	4,550,000	907,577	5,457,577
2021 - 2025	1,935,000	204,703	2,139,703
2026	230,000	4,888	234,888
Total	<u>\$ 11,550,000</u>	<u>\$ 2,947,735</u>	<u>\$ 14,497,735</u>

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City. The City also issued bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The City is not obligated in any manner for special assessment debt.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

Subsequent Event

Subsequent to year end, voters within the City approved a bond referendum for \$8,000,000, which is planned to be used for street and drainage improvements within the City.

E. Interfund Transactions

The composition of interfund balances as of year end was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General fund	Water and sewer fund	\$ 112,073
General fund	Metro fund	1,407
		<u>\$ 113,480</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions, and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City is a member of the TML Workers' Compensation Intergovernmental Risk Pool (the "TML Pool"), which is not intended to operate as an insurance company, but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The TML Pool contracts with a third party administrator for administration, investigation and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

B. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 833 administered by 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 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 TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at www.TMRS.com.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

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:

	2010	2009
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/ yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	70% of CPI Repeating

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution 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 remainder of the plan's 30-year amortization period. 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 (i.e., December 31, 2008 valuation is effective for rates beginning January 2010).

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

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

	2010	2009	2008
Annual Req. Contrib. (ARC)	\$ 56,860	\$ 60,676	\$ 37,825
Contributions Made	56,860	60,676	37,825
NPO at the End of Period	\$ -	\$ -	\$ -

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

	2010	2009	2008
Actuarial Valuation Date	12/31/2009	12/31/2008	12/31/2007
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single			
Amortization Period	29 Years - Closed period	29 Years - Closed period	30 Years - Closed period
Amortization Period for new			
Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-yr Smoothed	Amortized cost	Amortized cost
	Market		
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
Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.00%	2.10%	2.10%

The funded status as of December 31, 2009, the most recent valuation date, is as follows:

	2010
Actuarial Valuation Date	12/31/2009
Actuarial Value of Assets	\$ 1,426,002
Actuarial Accrued Liability	\$ 1,459,046
Percentage Funded	97.7%
Unfunded Actuarial	
Accrued Liability (UAAL)	\$ 33,044
Annual Covered Payroll	\$ 477,766
UAAL as a Percentage of Covered Payroll	6.9%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended December 31, 2010

C. Other Post Employment Benefits

TMRS - Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500. This coverage is an "other post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended December 31, 2010, the City offered the supplemental death benefit to both active and retired employees.

Contributions

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 contribution rate to the TMRS SDBF, for the retiree portion, for the year ended December 31, 2010 is shown below.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual Req. Contrib. (Rate)	0.03%	0.03%	0.05%
Actual Contribution Made	0.03%	0.03%	0.05%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

D. Agreement with Metro and Harris County

On July 1, 1999, the City entered into a Congestion Mitigation/Traffic Management Agreement with the Metropolitan Transit Authority of Harris County (Metro). Under the terms of the agreement, as amended in October of 2004, Metro is to provide the City annual funding of \$129,000 for eligible transportation projects through December 31, 2014.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

E. Interlocal Agreement for Water Conservation Credits

In 1995, the City entered into an interlocal agreement with the Harris-Galveston Coastal Subsidence District (the "District") for the purpose of sponsoring the establishment of water conservation goals, guidelines, and plans to be used within the District. Under this agreement, the District provides school curriculum kits and in-service training to teachers, as well as provides all support functions for the program to certain schools. The City pays the District \$34.50 for each student sponsored. The City receives a water conservation credit equal to 84,000 gallons of groundwater for each student sponsored. The City may hold, transfer, sell or redeem the credits at any time. Groundwater credits earned through July 2001 have a lifespan of 40 years. Beginning with the 2001-2002 school year, the District issued a new series of groundwater certificates that will have a lifespan of 20 years and can only be applied to a maximum of 30 percent of a permittee's total water demand. At year end, the City has a total of 862,068,000 gallons of credit for use under this agreement: 269,760,000 gallons of original groundwater series credits and 592,308,000 gallons of new groundwater series B credits.

F. Related Organizations and Joint Ventures

Memorial Village Police Department – Health Insurance Benefits

In November 2006, the City entered into an insurance agreement (the "Agreement") by and between the Memorial Village Police Department (the "Department") and the City of Piney Point Village to collectively seek health and related ancillary benefits for each entity's employees with the Department serving as the administrator. Under the terms of the Agreement, each party is responsible for the monthly premiums covering that entity's employees.

Memorial Villages Water Authority

In July 1985, the City entered into a waste disposal agreement with Memorial Villages Water Authority (the "Authority"). As part of this agreement, the City paid 18.2 percent of the cost of construction for the wastewater treatment plant of the Authority.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

For the Year Ended December 31, 2010

Village Fire Department

The City has entered into an interlocal agreement (the "Agreement") with the cities of Hunters Creek Village, Hedwig Village, Hilshire Village, Piney Point Village and Spring Valley Village to create the Village Fire Department ("VFD"). The Agreement automatically renews for a period of five years unless terminated by at least one of the contracting cities. Under the terms of the Agreement, the City is liable for 19 percent of the VFD's budget. Consolidated financial information of the VFD extracted from its audited financial statement for the year ended December 31, 2009, on which their auditors expressed an unqualified opinion, is as follows:

	<u>VFD Total</u>		<u>City's Portion (19%)</u>	
	<u>Net Assets</u>	<u>Balance Sheet</u>	<u>Net Assets</u>	<u>Balance Sheet</u>
Total assets	\$ 2,171,454	\$ 396,441	\$ 412,576	\$ 75,323
Total liabilities	551,554	38,868	104,795	7,385
Total participants' equity	<u>\$ 1,619,900</u>	<u>\$ 357,573</u>	<u>\$ 307,781</u>	<u>\$ 67,938</u>
	<u>Change in</u>	<u>Revenues and</u>	<u>Change in</u>	<u>Revenues and</u>
	<u>Net Assets</u>	<u>Expenditures</u>	<u>Net Assets</u>	<u>Expenditures</u>
Total revenues	\$ 5,320,039	\$ 5,320,039	\$ 1,010,807	\$ 1,010,807
Total expenditures/expenses	5,112,067	5,050,964	971,293	959,683
Revenues over expenditures/expenses	207,972	269,075	39,515	51,124
Surplus refund to cities	(192,103)	(192,103)	(36,500)	(36,500)
Beginning participants' equity	1,604,031	280,601	304,766	53,314
Ending participants' equity	<u>\$ 1,619,900</u>	<u>\$ 357,573</u>	<u>\$ 307,781</u>	<u>\$ 67,938</u>
Unfunded actuarial accrued liability at 12/31/08 with TMRS	\$ 2,355,073		\$ 502,463	

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended December 31, 2010

Memorial Village Police Department

The City has also entered into an interlocal agreement with the cities of Piney Point Village and Hunters Creek Village to create the Memorial Village Police Department (“MVPD”). Under the terms of the agreement, the City is liable for 33 percent of the MVPD’s budget.

Consolidated financial information of the MVPD extracted from the its audited financial statement for the year ended December 31, 2009, on which their auditors expressed an unqualified opinion, is as follows:

	Total MVPD		City's Portion (33%)	
	<u>Net Assets</u>	<u>Balance Sheet</u>	<u>Balance Sheet</u>	<u>Balance Sheet</u>
Total assets	\$ 2,238,106	\$ 405,286	\$ 738,575	\$ 133,744
Total liabilities	477,689	122,620	157,637	40,465
Total participants' equity	<u>\$ 1,760,417</u>	<u>\$ 282,666</u>	<u>\$ 580,938</u>	<u>\$ 93,279</u>
	<u>Change in Net Assets</u>	<u>Revenues and Expenditures</u>	<u>Revenues and Expenditures</u>	<u>Revenues and Expenditures</u>
Total revenues	\$ 4,336,884	\$ 4,195,826	\$ 1,431,173	\$ 1,384,623
Total expenditures/expenses	<u>4,657,281</u>	<u>4,269,673</u>	<u>1,536,903</u>	<u>1,408,992</u>
Revenues over expenditures/expenses	(320,397)	(73,847)	(105,730)	(24,370)
Proceeds from sale of assets	-	7,200	-	-
Beginning participants' equity	2,080,814	349,313	686,669	115,273
Ending participants' equity	<u>\$ 1,760,417</u>	<u>\$ 282,666</u>	<u>\$ 580,939</u>	<u>\$ 90,903</u>
Unfunded actuarial accrued liability at 12/31/09 with TMRS	\$ 3,040,423		\$ 1,003,340	

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BUNKER HILL VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2010

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 2,220,910	\$ 2,220,910	\$ 2,213,711	\$ (7,199)
Sales, franchise, and other taxes	345,000	345,000	388,416	43,416
Permits and licenses	188,139	188,140	276,909	88,769
Fines and forfeitures	171,138	171,138	165,751	(5,387)
Interest on investments	37,000	37,000	9,525	(27,475)
Other revenues	72,654	79,426	73,721	(5,705)
Total Revenues	<u>3,034,841</u>	<u>3,041,614</u>	<u>3,128,033</u>	<u>86,419</u>
Expenditures				
General government	467,134	529,560	491,726	37,834
Public works	92,000	249,500	223,072	26,428
Public safety	2,334,727	2,287,187	2,285,844	1,343
Capital outlay	180,419	180,419	95,716	84,703
Total Expenditures	<u>3,074,280</u>	<u>3,246,666</u>	<u>3,096,358</u>	<u>150,308</u>
Net Change in Fund Balance	<u>\$ (39,439)</u>	<u>\$ (205,052)</u>	31,675	<u>\$ 236,727</u>
Beginning fund balance			<u>2,273,203</u>	
Ending Fund Balance			<u>\$ 2,304,878</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF BUNKER HILL VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
METRO FUND

For the Year Ended December 31, 2010

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 129,000	\$ 129,000	\$ 129,000	\$ -
Interest on investments	16,000	16,000	2,274	(13,726)
Total Revenues	<u>145,000</u>	<u>145,000</u>	<u>131,274</u>	<u>(13,726)</u>
Expenditures				
General government	20,000	21,000	20,769	231
Public works	83,680	82,680	67,567	15,113
Capital outlay	79,000	291,924	291,924	-
Total Expenditures	<u>182,680</u>	<u>395,604</u>	<u>380,260</u>	<u>15,344</u>
Excess of Revenues Over (Under) Expenditures	<u>(37,680)</u>	<u>(250,604)</u>	<u>(248,986)</u>	<u>(29,070)</u>
Net Change in Fund Balance	<u>\$ (37,680)</u>	<u>\$ (250,604)</u>	<u>(248,986)</u>	<u>\$ 1,618</u>
Beginning fund balance			<u>1,187,342</u>	
Ending Fund Balance			<u>\$ 938,356</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF BUNKER HILL VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended December 31, 2010

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial Valuation Date	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Actuarial Value of Assets	\$ 1,426,002	\$ 1,555,624	\$ 1,421,953	\$ 1,296,315	\$ 1,267,794
Actuarial Accrued Liability	\$ 1,459,046	\$ 1,830,441	\$ 1,521,344	\$ 1,105,509	\$ 1,109,935
Percentage Funded	97.7%	85.0%	93.5%	117.3%	114.2%
Unfunded Actuarial					
Accrued Liability	\$ 33,044	\$ 274,817	\$ 99,391	\$ (190,806)	\$ (157,859)
Annual Covered Payroll	\$ 491,020	\$ 481,208	\$ 429,846	\$ 358,145	\$ 372,026
Unfunded Actuarial Accrued Liability					
(UAAL) % of Covered Payroll	6.7%	57.1%	23.1%	-53.3%	-42.4%