

*ANNUAL FINANCIAL REPORT*

of the

**CITY OF  
BUNKER HILL VILLAGE, TEXAS**

For the Year Ended  
December 31, 2012

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# CITY OF BUNKER HILL VILLAGE, TEXAS

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December 31, 2012

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## *INDEPENDENT AUDITORS' REPORT*

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

### **Report on the Financial Statements**

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, 2012, and the related notes and financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
April 9, 2013

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

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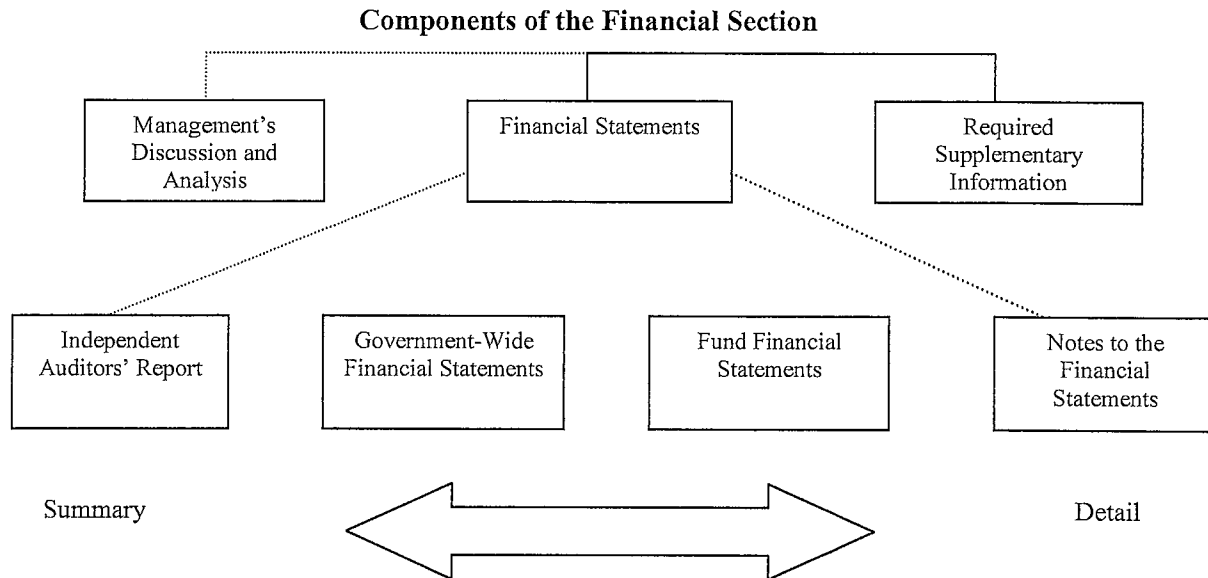
# CITY OF BUNKER HILL VILLAGE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2012

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, Texas (the "City") for the year ended December 31, 2012. 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. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT



The City's 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 Position and the Statement of Activities 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.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial 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.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2012

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in the net position 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 Position 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, which include general government, public safety, and public works. Interest payments on the City's debt are also reported here. Sales taxes, property taxes, franchise taxes, and other revenue 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 solid waste operations.

### FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. 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 governmental funds. Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, capital projects fund, and the Metro fund, which are considered to be major funds for reporting purposes. The Metro fund did not meet the criteria to be presented as a major fund; however, the City has elected to present it as major due to its significance.

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

# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 2012**

### **Proprietary Funds**

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water, wastewater, and solid waste operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

### **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. The notes can be found after the financial statements within this report.

### **Other Information**

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and Metro fund and the schedule of funding progress for the Texas Municipal Retirement System.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$13,445,302 as of year end.

A significant portion of the City's net position, 42 percent, reflects its investment in capital assets (e.g., land and City hall, 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, 2012

### Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2012			2011		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>						
Current and other assets	\$ 14,132,029	\$ 2,952,475	\$ 17,084,504	\$ 16,440,215	\$ 2,775,860	\$ 19,216,075
Capital assets, net	14,487,014	4,288,233	18,775,247	11,669,990	4,438,174	16,108,164
<b>Total Assets</b>	<b>28,619,043</b>	<b>7,240,708</b>	<b>35,859,751</b>	<b>28,110,205</b>	<b>7,214,034</b>	<b>35,324,239</b>
<b><u>Deferred Outflows of Resources</u></b>						
Deferred charge on refunding	117,992	-	117,992	29,956	-	29,956
<b><u>Liabilities</u></b>						
Long-term liabilities	17,586,875	-	17,586,875	18,728,000	-	18,728,000
Other liabilities	612,361	16,060	628,421	231,738	16,843	248,581
<b>Total Liabilities</b>	<b>18,199,236</b>	<b>16,060</b>	<b>18,215,296</b>	<b>18,959,738</b>	<b>16,843</b>	<b>18,976,581</b>
<b><u>Deferred Inflows of Resources</u></b>						
Unearned revenue	4,317,145	-	4,317,145	4,191,402	-	4,191,402
<b><u>Net Position</u></b>						
Net investment in capital						
assets	1,464,617	4,288,233	5,752,850	616,095	4,438,174	5,054,269
Restricted	1,656,559	-	1,656,559	1,589,964	-	1,589,964
Unrestricted	3,099,478	2,936,415	6,035,893	2,782,962	2,759,017	5,541,979
<b>Total Net Position</b>	<b>\$ 6,220,654</b>	<b>\$ 7,224,648</b>	<b>\$ 13,445,302</b>	<b>\$ 4,989,021</b>	<b>\$ 7,197,191</b>	<b>\$ 12,186,212</b>

A portion of the City's net position, \$1,656,559, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$6,035,893, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved during the year primarily as a result of an increase in property tax revenues.

The City's total net position increased by \$1,259,090 during the current fiscal year, an increase of ten percent in comparison to the prior year. The majority of the change is due to an increase in property tax revenue.

**CITY OF BUNKER HILL VILLAGE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended December 31, 2012

**Statement of Activities**

The following table provides a summary of the City's changes in net position.

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 562,652	\$ 2,629,173	\$ 3,191,825	\$ 506,244	\$ 3,004,167	\$ 3,510,411
Operating grants	129,000	-	129,000	129,000	-	129,000
General revenues:						
Property taxes	4,145,378	-	4,145,378	3,629,137	-	3,629,137
Sales and franchise taxes	361,779	-	361,779	356,001	-	356,001
Interest	30,392	5,193	35,585	9,762	4,124	13,886
Other	35,453	5,071	40,524	31,173	5,050	36,223
<b>Total Revenues</b>	<b>5,264,654</b>	<b>2,639,437</b>	<b>7,904,091</b>	<b>4,661,317</b>	<b>3,013,341</b>	<b>7,674,658</b>
<b>Expenses</b>						
General government	519,546	-	519,546	497,733	-	497,733
Public safety	2,253,152	-	2,253,152	2,192,824	-	2,192,824
Public works	594,624	-	594,624	509,808	-	509,808
Interest and fees on debt	581,394	-	581,394	423,433	-	423,433
Bond issuance costs and fees	84,305	-	84,305	17,869	-	17,869
Water, sewer, and waste	-	2,611,980	2,611,980	-	2,359,850	2,359,850
<b>Total Expenses</b>	<b>4,033,021</b>	<b>2,611,980</b>	<b>6,645,001</b>	<b>3,641,667</b>	<b>2,359,850</b>	<b>6,001,517</b>
<b>Change in Net Position</b>	<b>1,231,633</b>	<b>27,457</b>	<b>1,259,090</b>	<b>1,019,650</b>	<b>653,491</b>	<b>1,673,141</b>
Beginning net position	4,989,021	7,197,191	12,186,212	3,969,371	6,543,700	10,513,071
<b>Ending Net Position</b>	<b>\$ 6,220,654</b>	<b>\$ 7,224,648</b>	<b>\$ 13,445,302</b>	<b>\$ 4,989,021</b>	<b>\$ 7,197,191</b>	<b>\$ 12,186,212</b>

Revenues for the governmental activities increased \$603,337, or 13 percent, due to increases in charges for services and property taxes. Governmental expenses reported an increase for the year of \$391,354, or 11 percent, due to the increase in public safety and public works expenses.

Revenues for business-type activities decreased by \$373,904, or 12 percent, primarily due to a decrease in charges for services revenue. An increase in water consumption was experienced in the prior year due to drought conditions. Expenses increased by \$252,130, or 11 percent, compared to the prior year due to an increased cost of sewer expenses and additional water purchases.

# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 2012**

### **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 of near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$9,235,962. Of this, \$597,646 is restricted for debt service, \$4,446,486 is restricted for capital projects, and \$1,058,913 is restricted for Metro.

Overall, there was a decrease in combined fund balance of \$2,747,558 in comparison to the prior year. The decrease is primarily due to the Strey Lane project expenditures.

The general fund had revenues which exceeded expenditures by \$380,407. The increase is primarily due to an increase in property tax revenues and licenses and permits revenues.

The debt service fund had revenues which exceeded expenditures by \$9,194. The increase is primarily due to an increase in property tax revenues.

The capital projects fund had expenditures which exceeded revenues by \$3,194,560. The decrease is primarily due to the Strey Lane project expenditures.

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**

Actual revenues exceeded budgeted general fund revenues by \$67,745 during the year. This increase includes a positive variance of \$57,615 for license and permits revenues. General fund expenditures were under the final budget by \$575,160, mainly due to positive variances of \$509,082 in capital outlay.

### **CAPITAL ASSETS**

At the end of the year, the City's governmental activities had invested \$14,487,014 in capital assets and infrastructure and business-type activities had invested \$4,288,233 in capital assets and infrastructure. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Capital asset events during the year included the following:

- Strey Lane drainage project in the amount of \$3,070,194.
- Eastside drainage project in the amount of \$207,606.
- Radio read meter and waterline replacements in the amount of \$262,161.

# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 2012**

### **LONG-TERM DEBT**

At the end of the year, the City had a total of \$17,586,875 of long-term liabilities outstanding in bonds, notes, and other payables for governmental activities.

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 BUDGET**

In continuing the vision of Bunker Hill Village, the City plans to expand and improve quality infrastructure, facilities and public services to meet current and future needs. The City continues to experience growth due to new construction and developments and will continue to focus on maintaining an even balance within City limits.

The City budgeted \$3,365,162 in general revenues and \$3,689,593 in budgeted expenses for a projected decrease in fund balance of \$324,431 for the 2013 fiscal year.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. 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.

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF BUNKER HILL VILLAGE, TEXAS

## STATEMENT OF NET POSITION

December 31, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 11,540,859	\$ 2,595,763	\$ 14,136,622
Cash with agent	416,745	-	416,745
Receivables, net	2,111,905	419,232	2,531,137
Internal balances	62,520	(62,520)	-
	14,132,029	2,952,475	17,084,504
Capital assets:			
Nondepreciable capital assets	24,944	9,163	34,107
Net depreciable capital assets	14,462,070	4,279,070	18,741,140
	14,487,014	4,288,233	18,775,247
<b>Total Assets</b>	28,619,043	7,240,708	35,859,751
<b><u>Deferred Outflows of Resources</u></b>			
Deferred charge on refunding	117,992	-	117,992
<b><u>Liabilities</u></b>			
Accounts payable and other current liabilities	478,130	9,260	487,390
Accrued interest payable	132,284	-	132,284
Customer deposits	1,947	6,800	8,747
	612,361	16,060	628,421
Noncurrent liabilities:			
Long-term liabilities due within one year	1,328,104	-	1,328,104
Long-term liabilities due in more than one year	16,258,771	-	16,258,771
	17,586,875	-	17,586,875
<b>Total Liabilities</b>	18,199,236	16,060	18,215,296
<b><u>Deferred Inflows of Resources</u></b>			
Unearned revenue	4,317,145	-	4,317,145
<b><u>Net Position</u></b>			
Net investment in capital assets	1,464,617	4,288,233	5,752,850
Restricted for:			
Debt service	597,646	-	597,646
Metro	1,058,913	-	1,058,913
Unrestricted	3,099,478	2,936,415	6,035,893
<b>Total Net Position</b>	\$ 6,220,654	\$ 7,224,648	\$ 13,445,302

See Notes to Financial Statements.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
<b>Governmental Activities</b>			
General government	\$ 519,546	\$ 512,408	\$ -
Public safety	2,253,152	50,244	129,000
Public works	594,624	-	-
Interest on long-term debt	581,394	-	-
Bond issuance costs and fees	84,305	-	-
<b>Total Governmental Activities</b>	<b>4,033,021</b>	<b>562,652</b>	<b>129,000</b>
<b>Business-Type Activities</b>			
Water, sewer, and solid waste	2,611,980	2,629,173	-
<b>Total Business-Type Activities</b>	<b>2,611,980</b>	<b>2,629,173</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 6,645,001</b>	<b>\$ 3,191,825</b>	<b>\$ 129,000</b>

**General Revenues:**

Taxes:

Property taxes

Sales taxes

Franchise fees and local taxes

Investment income

Other

**Total General Revenues**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**  
**Primary Government**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (7,138)	\$ -	\$ (7,138)
(2,073,908)	-	(2,073,908)
(594,624)	-	(594,624)
(581,394)	-	(581,394)
(84,305)	-	(84,305)
<u>(3,341,369)</u>	<u>-</u>	<u>(3,341,369)</u>
-	17,193	17,193
-	17,193	17,193
<u>(3,341,369)</u>	<u>17,193</u>	<u>(3,324,176)</u>
4,145,378	-	4,145,378
67,490	-	67,490
294,289	-	294,289
30,392	5,193	35,585
35,453	5,071	40,524
<u>4,573,002</u>	<u>10,264</u>	<u>4,583,266</u>
1,231,633	27,457	1,259,090
4,989,021	7,197,191	12,186,212
<u>\$ 6,220,654</u>	<u>\$ 7,224,648</u>	<u>\$ 13,445,302</u>

# CITY OF BUNKER HILL VILLAGE, TEXAS

## BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2012

	General	Debt Service	Capital Projects	Metro
<b>Assets</b>				
Cash and cash equivalents	\$ 4,286,013	\$ 1,398,576	\$ 4,796,108	\$ 1,060,162
Restricted cash	239,563	177,182	-	-
Receivables, net	1,245,705	866,200	-	-
Due from other funds	440,050	-	-	-
<b>Total Assets</b>	<b>\$ 6,211,331</b>	<b>\$ 2,441,958</b>	<b>\$ 4,796,108</b>	<b>\$ 1,060,162</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	\$ 478,130	\$ -	\$ -	\$ -
Deposits	1,947	-	-	-
Due to other funds	-	26,659	349,622	1,249
<b>Total Liabilities</b>	<b>480,077</b>	<b>26,659</b>	<b>349,622</b>	<b>1,249</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	2,598,337	1,817,653	-	-
<b>Fund Balances</b>				
Restricted:				
Debt service	-	597,646	-	-
Capital projects	-	-	4,446,486	-
Metro	-	-	-	1,058,913
Unassigned	3,132,917	-	-	-
<b>Total Fund Balances</b>	<b>3,132,917</b>	<b>597,646</b>	<b>4,446,486</b>	<b>1,058,913</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 6,211,331</b>	<b>\$ 2,441,958</b>	<b>\$ 4,796,108</b>	<b>\$ 1,060,162</b>

### Adjustments for the Statement of Net Position:

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

Nondepreciable capital assets

Depreciable capital assets

Accumulated depreciation

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

Deferred revenue related to property taxes

Some liabilities, including bonds payable and accrued interest payable, are not reported as liabilities in the governmental funds.

Accrued interest payable

Deferred charge on refunding

Long-term liabilities due within one year

Long-term liabilities due in more than one year

### Net Position of Governmental Activities

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

\$ 11,540,859  
416,745  
2,111,905  
440,050  
\$ 14,509,559

\$ 478,130  
1,947  
377,530  
857,607

4,415,990

597,646  
4,446,486  
1,058,913  
3,132,917  
9,235,962

—  
24,944  
18,468,887  
(4,006,817)

98,845

(132,284)  
117,992  
(1,328,104)  
(16,258,771)

\$ 6,220,654

# CITY OF BUNKER HILL VILLAGE, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES,

### AND CHANGES IN FUND BALANCES

#### GOVERNMENTAL FUNDS

For the Year Ended December 31, 2012

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Metro</u>
Property taxes	\$ 2,310,861	\$ 1,872,215	\$ -	\$ -
Sales taxes	67,490	-	-	-
Charges for services	50,244	-	-	-
Franchise fees and local taxes	294,289	-	-	-
Fines and forfeitures	187,393	-	-	-
Licenses and permits	325,015	-	-	-
Investment income	6,814	2,048	18,916	2,614
Intergovernmental	-	-	-	129,000
Other	35,453	-	-	-
<b>Total Revenues</b>	<b>3,277,559</b>	<b>1,874,263</b>	<b>18,916</b>	<b>131,614</b>
 <u>Expenditures</u>				
<b>Current:</b>				
General government	480,670	-	-	20,000
Public safety	2,253,317	-	-	-
Public works	144,764	-	3,213,476	54,213
<b>Debt service:</b>				
Principal	-	1,210,000	-	-
Interest and fiscal charges	-	552,098	-	-
Bond issuance costs and fees	-	85,772	-	-
Other debt service - advance refunding escrow	-	107,625	-	-
Payment to refunding escrow agent	-	3,834,690	-	-
<b>Capital outlay</b>	<b>18,401</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenditures</b>	<b>2,897,152</b>	<b>5,790,185</b>	<b>3,213,476</b>	<b>74,213</b>
<b>Excess (Deficiency) of</b>				
<b>Revenues Over (Under) Expenditures</b>	<b>380,407</b>	<b>(3,915,922)</b>	<b>(3,194,560)</b>	<b>57,401</b>
 <u>Other Financing Sources</u>				
Debt issued	-	3,675,000	-	-
Premium on bonds issued	-	250,116	-	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>3,925,116</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>380,407</b>	<b>9,194</b>	<b>(3,194,560)</b>	<b>57,401</b>
Beginning fund balances	2,752,510	588,452	7,641,046	1,001,512
<b>Ending Fund Balances</b>	<b>\$ 3,132,917</b>	<b>\$ 597,646</b>	<b>\$ 4,446,486</b>	<b>\$ 1,058,913</b>

See Notes to Financial Statements.



**Total  
Governmental  
Funds**

\$ 4,183,076  
67,490  
50,244  
294,289  
187,393  
325,015  
30,392  
129,000  
35,453  
5,302,352

500,670  
2,253,317  
3,412,453

1,210,000  
552,098  
85,772

107,625  
3,834,690  
18,401  
11,975,026

(6,672,674)

3,675,000  
250,116  
3,925,116

(2,747,558)

11,983,520

\$ 9,235,962

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**CITY OF BUNKER HILL VILLAGE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2012**

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

Net changes in fund balances - total governmental funds	\$	(2,747,558)
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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.

Capital asset acquisitions and retirements		3,277,800
Depreciation expense		(460,776)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Net change in deferred revenue		(37,698)
--------------------------------	--	----------

The issuance of long-term debt 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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal paid on long-term debt		1,210,000
Debt issued		(3,675,000)
Premium on debt issued		(250,116)
Payment to refunding escrow agent		3,834,690
Other debt service - refunding escrow payment		107,625
Amortization of deferred charges		1,467
Accrued interest expense		(29,296)

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 the governmental funds.

Compensated absences		495
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		495
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>1,231,633</u></b>

See Notes to Financial Statements.

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# CITY OF BUNKER HILL VILLAGE, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUND

December 31, 2012

	<u>Business-Type Activities</u>
	<u>Enterprise</u>
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 2,595,763
Receivables, net	419,232
<b>Total Current Assets</b>	<u>3,014,995</u>
<b>Noncurrent Assets</b>	
Capital assets:	
Land	9,163
Building	1,036,160
Infrastructure	9,537,874
Water rights	446,890
Machinery and equipment	373,251
Less accumulated depreciation	(7,115,105)
<b>Total Net Depreciable Assets</b>	<u>4,279,070</u>
<b>Total Noncurrent Assets</b>	<u>4,288,233</u>
<b>Total Assets</b>	<u>7,303,228</u>
<b><u>Liabilities</u></b>	
<b>Current Liabilities</b>	
Accounts payable and accrued liabilities	9,260
Due to other funds	62,520
Customer deposits	6,800
<b>Total Current Liabilities</b>	<u>78,580</u>
<b>Total Liabilities</b>	<u>78,580</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	4,288,233
Unrestricted	2,936,415
<b>Total Net Position</b>	<u>\$ 7,224,648</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 POSITION PROPRIETARY FUND

For the Year Ended December 31, 2012

	<u>Business-Type Activities</u>
	<u>Enterprise</u>
<b><u>Operating Revenues</u></b>	
Water and sewer charges	\$ 2,629,173
Other	5,071
<b>Total Operating Revenues</b>	<u>2,634,244</u>
<b><u>Operating Expenses</u></b>	
Maintenance and operating expenses	2,199,878
Depreciation	412,102
<b>Total Operating Expenses</b>	<u>2,611,980</u>
<b>Operating Income</b>	22,264
<b><u>Nonoperating Revenues</u></b>	
Investment earnings	<u>5,193</u>
<b>Change in Net Position</b>	27,457
Beginning net position	<u>7,197,191</u>
<b>Ending Net Position</b>	<u>\$ 7,224,648</u>

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, 2012

	Business-Type Activities
	Enterprise
<b><u>Cash Flows from Operating Activities</u></b>	
Receipts from customers	\$ 2,670,518
Payments to suppliers	(1,820,621)
Payments to employees	(398,411)
<b>Net Cash Provided by Operating Activities</b>	<b>451,486</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>	
Acquisition and construction of capital assets	(262,161)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(262,161)</b>
<b><u>Cash Flows from Investing Activities</u></b>	
Interest received	5,193
Proceeds from sales and maturities of investments	903,052
<b>Net Cash Provided by Investing Activities</b>	<b>908,245</b>
<b>Net Increase in Cash and Cash Equivalents</b>	1,097,570
Beginning cash and cash equivalents	1,498,193
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 2,595,763</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 22,264
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	412,102
<b>Changes in Operating Assets and Liabilities:</b>	
<b>(Increase) Decrease in:</b>	
Accounts receivable	35,646
<b>Increase (Decrease) in:</b>	
Accounts payable and accrued liabilities	(1,411)
Customer deposits	628
Due to other funds	(17,743)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 451,486</b>

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, 2012

### 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. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the City. Governmental activities are normally supported by taxes and intergovernmental revenues and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### C. Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category, governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

#### **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 taxes and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and debt service. The general fund is always considered a major fund for reporting purposes.

#### **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 the City has elected to present it as 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.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

The City reports the following enterprise fund:

### Enterprise Fund

The enterprise fund is used to account for the operations that provide water and wastewater collection, wastewater treatment, and sanitation 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.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in preparation of the governmental-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

### **E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period or this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

### F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

#### 1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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 Government Code. In summary, the City is authorized to invest in the following:

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

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### 2. 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 the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

### 3. Capital Assets

Capital assets, which include property, machinery, 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 City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of four years. 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 the 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, machinery, 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	20-50 years
Machinery and equipment	5-10 years
Vehicles	4-20 years
Water and sewer system	20-65 years
Infrastructure	50-65 years

### 4. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis and accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported in the government-wide statement of net position and in the governmental funds balance sheet. The unavailable revenues result from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## *NOTES TO THE FINANCIAL STATEMENTS (Continued)*

For the Year Ended December 31, 2012

### **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 is 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.

### **6. Long-Term Obligations**

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 payment of principal and interest is reported as expenditures. 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. Bond premiums and discounts for proprietary fund types 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 expensed as incurred.

The property tax rate is recorded in 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 the interest earned in the general and debt service funds.

### **7. Net Position Flow Assumption**

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

### **8. Fund Balance Flow Assumptions**

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.



# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## *NOTES TO THE FINANCIAL STATEMENTS (Continued)*

For the Year Ended December 31, 2012

### **9. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The City strives to maintain a minimum unassigned fund balance in the general fund between 90 and 100 days of current year operating expenditures.

### **10. Estimates**

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

## **G. Revenues and Expenditures/Expenses**

### **1. Program Revenues**

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

### **2. 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 THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### 3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the municipal code of general law is the object and purpose stated in the approved budget. The final amended budget is used in this report. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that the City's deposits may not be returned in the event of a bank failure. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of December 31, 2012, fair market values of pledged securities and FDIC coverage exceeded bank balances.

### B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Total</u>
Property taxes	\$ 1,176,447	\$ 866,200	\$ -	\$ 2,042,647
Sales taxes	14,064	-	-	14,064
Accounts	-	-	423,230	423,230
Franchise fees	54,824	-	-	54,824
Other	370	-	981	1,351
Less allowance	-	-	(4,979)	(4,979)
<b>Totals</b>	<u>\$ 1,245,705</u>	<u>\$ 866,200</u>	<u>\$ 419,232</u>	<u>\$ 2,531,137</u>

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 24,944	\$ -	\$ -	\$ 24,944
Total capital assets, not being depreciated	<u>24,944</u>	<u>-</u>	<u>-</u>	<u>24,944</u>
Other capital assets:				
Infrastructure	14,637,593	3,277,800	-	17,915,393
Buildings	399,685	-	-	399,685
Vehicles and equipment	153,809	-	-	153,809
Total other capital assets	<u>15,191,087</u>	<u>3,277,800</u>	<u>-</u>	<u>18,468,887</u>
Less accumulated depreciation for:				
Infrastructure	(3,324,879)	(441,735)	-	(3,766,614)
Buildings	(93,080)	(8,670)	-	(101,750)
Vehicles and equipment	(128,082)	(10,371)	-	(138,453)
Total accumulated depreciation	<u>(3,546,041)</u>	<u>(460,776)</u>	<u>-</u>	<u>(4,006,817)</u>
Other capital assets, net	<u>11,645,046</u>	<u>2,817,024</u>	<u>-</u>	<u>14,462,070</u>
Totals	<u>\$ 11,669,990</u>	<u>\$ 2,817,024</u>	<u>\$ -</u>	<u>14,487,014</u>
			Less associated debt	(17,584,267)
			Plus deferred loss on refunding	117,992
			Plus unspent bond proceeds	4,443,878
				<u>\$ 1,464,617</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 19,041
Public works	441,735
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 460,776</u>

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 9,163	\$ -	\$ -	\$ 9,163
Total capital assets, not being depreciated	<u>9,163</u>	<u>-</u>	<u>-</u>	<u>9,163</u>
Other capital assets:				
Buildings	1,036,160	-	-	1,036,160
Water rights	446,890	-	-	446,890
Machinery and equipment	373,251	-	-	373,251
Infrastructure	9,275,713	262,161	-	9,537,874
Total other capital assets	<u>11,132,014</u>	<u>262,161</u>	<u>-</u>	<u>11,394,175</u>
Less accumulated depreciation for:				
Buildings	(988,694)	(3,997)	-	(992,691)
Water rights	(446,890)	-	-	(446,890)
Machinery and equipment	(165,310)	(19,729)	-	(185,039)
Infrastructure	(5,102,109)	(388,376)	-	(5,490,485)
Total accumulated depreciation	<u>(6,703,003)</u>	<u>(412,102)</u>	<u>-</u>	<u>(7,115,105)</u>
Other capital assets, net	<u>4,429,011</u>	<u>(149,941)</u>	<u>-</u>	<u>4,279,070</u>
Totals	<u>\$ 4,438,174</u>	<u>\$ (149,941)</u>	<u>\$ -</u>	<u>\$ 4,288,233</u>

Depreciation was charged to business-type functions as follows:

**Total Business-Type Activities Depreciation Expense**     \$ 412,102

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### D. Long-Term Debt

The following is a summary of changes in the City's total governmental activities long-term liabilities for the year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities</b>					
Bonds, notes and other payables:					
Certificates of obligation	\$ 6,640,000	\$ -	\$ (4,255,000)	\$ 2,385,000	* \$ 120,000
General obligation bonds	12,010,000	3,675,000	(805,000)	14,880,000	* 1,175,000
Premium	74,897	250,116	(5,746)	319,267	* 30,757
Compensated absences	3,103	-	(495)	2,608	2,347
<b>Total Governmental Activities</b>	<u>\$ 18,728,000</u>	<u>\$ 3,925,116</u>	<u>\$ (5,066,241)</u>	<u>\$ 17,586,875</u>	<u>\$ 1,328,104</u>

Long-term debt due in more than one year \$ 16,258,771

\*Debt associated with governmental activity capital assets \$ 17,584,267

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:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>Governmental Activities</b>		
<b>Certificates of Obligation</b>		
Series 2005	3.50-5.50%	\$ 2,385,000
<b>Total Certificates of Obligation</b>		<u>2,385,000</u>
 <b>General Obligation Bonds</b>		
Series 2009	2.00-3.38%	3,485,000
Series 2011	2.00-4.00%	7,720,000
Series 2012	2.00-3.00%	3,675,000
<b>Total General Obligation Bonds</b>		<u>14,880,000</u>
<b>Total Governmental Activities Long-Term Debt</b>		<u>\$ 17,265,000</u>

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

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

Ending Dec 31	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,295,000	\$ 513,576	\$ 1,808,576
2014	1,330,000	482,391	1,812,391
2015	1,370,000	447,360	1,817,360
2016	1,415,000	407,904	1,822,904
2017	1,460,000	366,300	1,826,300
2018-2022	5,335,000	1,297,556	6,632,556
2023-2027	3,030,000	644,857	3,674,857
2028-2031	2,030,000	162,925	2,192,925
<b>Total</b>	<b>\$ 17,265,000</b>	<b>\$ 4,322,869</b>	<b>\$ 21,587,869</b>

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.

### Current Refunding

The City issued \$3,675,000 of general obligation refunding bonds, Series 2012 and contributed \$107,625 for a current refunding of \$3,850,000 of outstanding certificates of obligation, Series 2002. The refunding was undertaken to provide a present value savings in the debt service payable by the City. The reacquisition price exceeded the net carrying amount of the old debt by \$92,315. This amount is being amortized over the life of the new debt issued, which is equal to the life of the old debt. The transaction also resulted in an economic gain of \$545,851 and a reduction of \$619,150 in future debt service payments.

### 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 (IRS) 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.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### E. Interfund Transactions

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

Receivables Fund	Payables Fund	Amounts
General Fund	Water and Sewer Fund	\$ 62,520
General Fund	Debt Service Fund	26,659
General Fund	Metro Fund	1,249
General Fund	Capital Projects Fund	349,622
		\$ 440,050

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

### F. Restatement of Net Position

In the fiscal year ending December 31, 2012, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. In accordance with this statement, beginning net position of the governmental activities has been reduced by \$258,790 to remove previously capitalized bond issuance costs.

See below for a reconciliation of changes in beginning net position:

	Governmental Activities
Beginning net position	\$ 5,247,811
Restatement - bond issuance costs	(258,790)
Beginning net position - restated	\$ 4,989,021

## 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 Pools (the "Pool"). The Pool purchases commercial insurance at a group rate 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.

# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

For the Year Ended December 31, 2012

The City is a member of the Texas Municipal League 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. Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

It was determined some years ago that 105 addresses in the City were connected and being serviced by the City of Houston for wastewater. It was also determined at that time 15 addresses in the City of Houston were connected and being serviced by the City. Both parties agreed to service said wastewater as subject to the terms and conditions outlined in the waste disposal contract dated April 10, 2002. At this time, the parties have not determined the financial ramifications of the situation described above.

### **C. Pension Plan**

#### **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), 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 RSI for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).



# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

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:

	<u>2012</u>	<u>2011</u>
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%	100%
	Repeating, Transfers	Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

### 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.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

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.

Three-year trend information for the annual pension cost (APC) is as follows:

	2012	2011	2010
Annual Req. Contributions (ARC)	\$ 44,249	\$ 55,527	\$ 59,386
Actual Contribution Made	\$ 44,249	\$ 55,527	\$ 59,386
Percentage of ARC	100.00%	100.00%	100.00%

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2010 actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	2012	2011	2010
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	25.4 Years - Closed period	25.4 Years - Closed period	29.1 Years - Closed period
Amortization Period for New Gains/Losses	25 Years	25 Years	30 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00% 0.00%	3.00% 0.00%	3.00% 0.00%

The funded status as of December 31, 2011, under the actuarial valuation, is presented as follows:

	2012
Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 2,187,668
Actuarial Accrued Liability	\$ 2,146,284
Percentage Funded	101.9%
Unfunded Actuarial Accrued Liability (UAAL)	\$ (41,384)
Annual Covered Payroll	\$ 501,033
UAAL as a Percentage of Covered Payroll	(8.3%)

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.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

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 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.

### D. 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 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 and 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, 2012, 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 contributions to the TMRS SDBF for the fiscal years ended 2012, 2011, and 2010 were \$154, \$200, and \$124, respectively, which equaled the required contributions each year. The retiree-only portion of the rate for the past three years is shown below:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Req. Contributions (ARC)	0.03%	0.04%	0.03%
Actual Contribution Made	0.03%	0.04%	0.03%
Percentage of ARC Contributed	100.00%	100.00%	100.00%

# **CITY OF BUNKER HILL VILLAGE, TEXAS**

## ***NOTES TO THE FINANCIAL STATEMENTS (Continued)***

For the Year Ended December 31, 2012

### **E. Agreement with Metro and Harris County**

On July 1, 1999, the City entered into a Congestion Mitigation/Traffic Management Agreement (the "Agreement") with the Metropolitan Transit Authority of Harris County (Metro). As of December 31, 2012, Metro contributed \$129,000 to the City. Under the new terms of the Agreement, as amended in October of 2012, Metro is to provide the City annual funding of \$134,000 for eligible transportation projects through December 31, 2025. This is contingent to the City posting signs in favor of the Metro referendum and having the referendum pass. If the referendum does not pass, Metro has the right to keep all the funds.

### **F. Interlocal Agreement for Water Conservation Credits**

In 1995, the City entered into an interlocal agreement (the "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 25,708,000 gallons of credit for use under this Agreement.

### **G. 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 (the "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 to the Authority.

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### 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, 2011, on which their auditors expressed an unqualified opinion, is as follows:

	VFD Total		City's Portion (19%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 2,475,794	\$ 798,776	\$ 470,401	\$ 151,767
Total liabilities	439,136	35,337	83,436	6,714
<b>Total Participants' Equity</b>	<b>\$ 2,036,658</b>	<b>\$ 763,439</b>	<b>\$ 386,965</b>	<b>\$ 145,053</b>
	<b>Change in Net Assets</b>	<b>Revenues and Expenditures</b>	<b>Change in Net Assets</b>	<b>Revenues and Expenditures</b>
Total revenues	\$ 5,138,161	\$ 5,153,443	\$ 976,251	\$ 979,154
Total expenditures/expenses	4,867,390	4,960,496	924,804	942,494
Revenues over expenditures/expenses	270,771	192,947	51,446	36,660
Beginning participants' equity	1,765,887	570,492	335,519	108,393
<b>Ending Participants' Equity</b>	<b>\$ 2,036,658</b>	<b>\$ 763,439</b>	<b>\$ 386,965</b>	<b>\$ 145,053</b>
Unfunded actuarial accrued liability at 12/31/11 with TMRS	\$ 840,595		\$ 159,713	

# CITY OF BUNKER HILL VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2012

### Memorial Villages Police Department

The City has also entered into an interlocal agreements (the "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, 2011, on which their auditors expressed an unqualified opinion, is as follows:

	MVPD Total		City's Portion (33%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 1,861,665	\$ 329,233	\$ 614,349	\$ 108,647
Total liabilities	577,155	91,649	190,461	30,244
<b>Total Participants' Equity</b>	<b>\$ 1,284,510</b>	<b>\$ 237,584</b>	<b>\$ 423,888</b>	<b>\$ 78,403</b>
	<b>Change in</b>	<b>Revenues and</b>	<b>Change in</b>	<b>Revenues and</b>
	<b>Net Assets</b>	<b>Expenditures</b>	<b>Net Assets</b>	<b>Expenditures</b>
Total revenues	\$ 4,187,534	\$ 4,063,817	\$ 1,381,886	\$ 1,341,060
Total expenditures/expenses	4,456,547	4,051,591	1,470,661	1,337,025
Revenues over expenditures/expenses	(269,013)	12,226	(88,775)	4,035
Proceeds from sale of assets	-	11,830	-	3,904
Beginning participants' equity	1,553,523	213,528	512,663	70,464
<b>Ending Participants' Equity</b>	<b>\$ 1,284,510</b>	<b>\$ 237,584</b>	<b>\$ 423,888</b>	<b>\$ 78,403</b>
Unfunded actuarial accrued liability at 12/31/11 with TMRS	\$ 2,319,453		\$ 765,419	

***REQUIRED SUPPLEMENTARY INFORMATION***

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**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, 2012

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Property taxes	\$ 2,325,290	\$ 2,325,290	\$ 2,310,861	\$ (14,429)
Sales taxes	70,590	70,590	67,490	(3,100)
Charges for services	30,000	30,000	50,244	20,244
Franchise fees and local taxes	305,000	305,000	294,289	(10,711)
Fines and forfeitures	180,610	180,610	187,393	6,783
Licenses and permits	267,400	267,400	325,015	57,615
Investment income	8,270	8,270	6,814	(1,456)
Other	22,654	22,654	35,453	12,799
<b>Total Revenues</b>	<u>3,209,814</u>	<u>3,209,814</u>	<u>3,277,559</u>	<u>67,745</u>
<b>Expenditures</b>				
General government	489,544	518,397	480,670	37,727
Public safety	2,251,592	2,253,317	2,253,317	-
Public works	189,000	173,115	144,764	28,351
Capital outlay	527,483	527,483	18,401	509,082
<b>Total Expenditures</b>	<u>3,457,619</u>	<u>3,472,312</u>	<u>2,897,152</u>	<u>575,160</u>
<b>Net Change in Fund Balance</b>	<u>\$ (247,805)</u>	<u>\$ (262,498)</u>	380,407	<u>\$ 642,905</u>
Beginning fund balance			<u>2,752,510</u>	
			<u><u>\$ 3,132,917</u></u>	

Notes to Required Supplementary Information:

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

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**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, 2012

	Original and Final Budget	Actual	Variance Positive (Negative)
<b><u>Revenues</u></b>			
Intergovernmental	\$ 129,000	\$ 129,000	\$ -
Interest on investments	2,300	2,614	314
<b>Total Revenues</b>	131,300	131,614	314
<b><u>Expenditures</u></b>			
General government	20,000	20,000	-
Public works	97,895	54,213	43,682
<b>Total Expenditures</b>	117,895	74,213	43,682
<b>Net Change in Fund Balance</b>	\$ 13,405	57,401	\$ 43,996
Beginning fund balance		1,001,512	
<b>Ending Fund Balance</b>		<b>\$ 1,058,913</b>	

Notes to Required Supplementary Information:

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

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# CITY OF BUNKER HILL VILLAGE, TEXAS

## SCHEDULE OF FUNDING PROGRESS

### TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended December 31, 2012

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

Fiscal Year	<b>2012</b>	<b>2011</b>	<b>2010</b>
Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 2,187,668	\$ 2,051,725	\$ 1,426,002
Actuarial Accrued Liability	\$ 2,146,284	\$ 2,032,675	\$ 1,459,046
Percentage Funded	101.9%	100.9%	97.7%
Unfunded Actuarial			
Accrued Liability (UAAL)	\$ (41,384)	\$ (19,050)	\$ 33,044
Annual Covered Payroll	\$ 501,033	\$ 511,296	\$ 477,766
(UAAL) % of Covered Payroll	(8.3%)	(3.7%)	6.9%
Net Pension Obligation (NPO)			
at the Beginning of Period	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	44,249	55,527	59,386
Contributions Made	44,249	55,527	59,386
<b>NPO at the End of Period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

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