

ANNUAL FINANCIAL REPORT

of the

**CITY OF
BUNKER HILL VILLAGE, TEXAS**

For the Year Ended
December 31, 2017

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CITY OF BUNKER HILL VILLAGE, TEXAS

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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, each major fund, and the aggregate remaining fund information of the City of Bunker Hill Village, Texas (the "City"), as of and for the year ended December 31, 2017, and the related notes to the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 29, 2018

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

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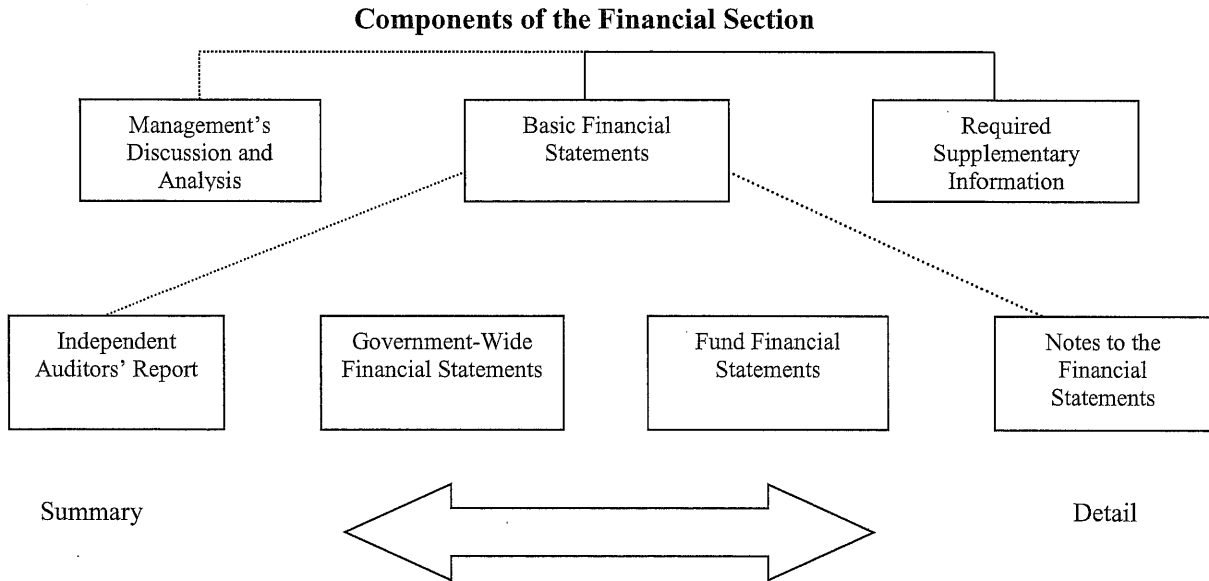
CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

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, 2017. 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. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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 outflows/inflows 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, 2017

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in 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's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here, including 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.

The government-wide financial statements can be found after the MD&A.

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 five 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, and the capital projects fund, which are considered to be major funds for reporting purposes. The Metro fund and restricted court fund are considered nonmajor funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, and the Metro fund. Budgetary comparison schedules have 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, 2017

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. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

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 are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and a schedule of changes in net pension liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$24,077,546 as of year end.

A portion of the City's net position, 56.08 percent, reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities), less any outstanding debt used to acquire those assets. 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, 2017

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 13,540,177	\$ 3,692,558	\$ 17,232,735	\$ 12,478,186	\$ 4,765,468	\$ 17,243,654
Capital assets, net	17,878,174	6,130,803	24,008,977	17,781,182	4,376,414	22,157,596
Total Assets	31,418,351	9,823,361	41,241,712	30,259,368	9,141,882	39,401,250
Deferred Outflows of Resources						
Deferred outflows - pensions	103,825	149,123	252,948	118,849	170,763	289,612
Deferred charge on refunding	58,003	-	58,003	72,356	-	72,356
Total Deferred Outflows	161,828	149,123	310,951	191,205	170,763	361,968
Liabilities						
Long-term liabilities	10,621,532	83,593	10,705,125	12,116,648	55,377	12,172,025
Other liabilities	286,983	429,206	716,189	222,605	432,082	654,687
Total Liabilities	10,908,515	512,799	11,421,314	12,339,253	487,459	12,826,712
Deferred Inflows of Resources						
Unearned revenue	6,053,803	-	6,053,803	5,833,659	-	5,833,659
Net Position						
Net investment in capital assets	7,371,683	6,130,803	13,502,486	5,778,396	4,376,414	10,154,810
Restricted	3,828,996	-	3,828,996	938,821	-	938,821
Unrestricted	3,417,182	3,328,882	6,746,064	5,560,444	4,448,772	10,009,216
Total Net Position	\$ 14,617,861	\$ 9,459,685	\$ 24,077,546	\$ 12,277,661	\$ 8,825,186	\$ 21,102,847

A portion of the City's net position, \$3,828,996, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$6,746,064, may be used to meet the City's ongoing obligation to citizens and creditors. Assets increased compared to the prior year due to an increase in capital assets related to various capital projects. Long-term liabilities decreased due to scheduled principal payments made during the fiscal year. Other liabilities increased compared to the prior year due to an increase in retainage and construction invoices payable at fiscal year end. Unearned revenues increased compared to the prior year due to an increase in the assessed values of properties within the City.

The City's total net position increased by \$2,974,699 during the current fiscal year, an increase of 14 percent in comparison to the prior year.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

Statement of Activities

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

	For the Year Ended December 31, 2017			For the Year Ended December 31, 2016		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 612,030	\$ 3,193,945	\$ 3,805,975	\$ 478,253	\$ 3,014,256	\$ 3,492,509
Operating grants	134,000	-	134,000	134,000	-	134,000
General revenues:						
Property taxes	5,853,556	-	5,853,556	5,330,181	-	5,330,181
Sales and franchise taxes	448,590	-	448,590	405,772	-	405,772
Interest	66,311	28,682	94,993	34,785	18,002	52,787
Other	78,017	40,018	118,035	73,876	-	73,876
Total Revenues	7,192,504	3,262,645	10,455,149	6,456,867	3,032,258	9,489,125
Expenses						
General government	719,790	-	719,790	808,501	-	808,501
Public safety	2,823,401	-	2,823,401	2,615,433	-	2,615,433
Public works	1,015,080	-	1,015,080	917,945	-	917,945
Interest and fiscal charges	294,033	-	294,033	343,813	-	343,813
Water, sewer, and waste	-	2,628,146	2,628,146	-	2,814,594	2,814,594
Total Expenses	4,852,304	2,628,146	7,480,450	4,685,692	2,814,594	7,500,286
Change in Net Position	2,340,200	634,499	2,974,699	1,771,175	217,664	1,988,839
Beginning net position	12,277,661	8,825,186	21,102,847	10,506,486	8,607,522	19,114,008
Ending Net Position	\$ 14,617,861	\$ 9,459,685	\$ 24,077,546	\$ 12,277,661	\$ 8,825,186	\$ 21,102,847

Revenues for the governmental activities increased \$735,637, or 11 percent, due to an increase in property taxes related to an increase in the assessed values of properties within the City and an increase in charges for services related to an increase in building permits and court fines and fees. Governmental expenses reported an increase for the year of \$166,612, or four percent, due to an increase in police and fire department expenses and public works expenses related to non capital projects. These increases were partially offset by decreases in general government expenses related to fewer non capital projects in the current year and a decrease in interest and fiscal agent charges.

Revenues for business-type activities increased by \$230,387, or eight percent, primarily due to an increase in charges for services revenue related to an increase in rates. Expenses decreased by \$186,448, or seven percent, compared to the prior year due to a decrease in customer consumption and a decrease in non capital projects.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

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 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 \$7,119,348. Of this, \$3,426,929 is restricted for Metro, \$359,222 is restricted for debt service, and \$42,845 is restricted for enabling legislation. The City has assigned \$814,578 for emergency purposes.

Overall, there was an increase in combined fund balance of \$751,277 in comparison to the prior year. The increase is primarily due to an increase in property tax revenue, building permits, and court fines in comparison to the prior year.

The general fund had revenues that exceeded expenditures by \$1,542,775. Revenues increased due to an increase in property tax revenues from an increase in the assessed values of properties, an increase in building permits, and an increase in citations issued. Expenditures increased due to an increase in fire and police department expenditures and an increase in street repairs. These increases were partially offset by a decrease in capital outlay due to the creation of a capital projects fund in the current year.

The debt service fund had a net reduction in fund balance for the year of \$97,540. The decrease is primarily due to an increase in principal payments.

The capital projects fund is a newly created fund and had a decrease in fund balance of \$638,115 related to various capital projects.

Proprietary Funds – The City's proprietary funds financial statements 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 \$258,970 during the year. This net variance is largely due to additional sales tax, fines and forfeitures, and licenses and permits revenues over what was anticipated. General fund expenditures were under the final budget by \$1,283,805, mainly due to large positive variances in general government and capital outlay.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$24,008,977 in a variety of capital assets and infrastructure (net of accumulated depreciation).

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

Major capital asset events during the year included the following:

- Wastewater rehabilitation projects 1 and 2
- Regional drainage project 1
- Localize – Wood Lane project
- Water plant #1 tank project

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

LONG-TERM DEBT

At the end of the year, the City had a total of \$10,621,532 in long-term liabilities. This balance consists of outstanding bonds, net pension liability, and compensated absences for governmental and business-type activities.

More detailed information about the City's long-term liabilities is presented in note III.D. 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 adopted a \$5,333,530 general fund budget for fiscal year 2018, which is an increase of 5.39 percent compared to the 2017 adopted budget.

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, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 9,526,486	\$ 3,074,921	\$ 12,601,407
Cash with agent	1,677,882	-	1,677,882
Receivables, net	2,335,809	617,637	2,953,446
	13,540,177	3,692,558	17,232,735
Capital assets:			
Nondepreciable capital assets	453,460	2,001,093	2,454,553
Net depreciable capital assets	17,424,714	4,129,710	21,554,424
	17,878,174	6,130,803	24,008,977
Total Assets	31,418,351	9,823,361	41,241,712
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pensions	103,825	149,123	252,948
Deferred charge on refunding	58,003	-	58,003
Total Deferred Outflows of Resources	161,828	149,123	310,951
<u>Liabilities</u>			
Accounts payable and other current liabilities	209,307	411,233	620,540
Accrued interest payable	77,676	-	77,676
Customer deposits	-	17,973	17,973
	286,983	429,206	716,189
Noncurrent liabilities:			
Long-term liabilities due within one year	1,555,669	6,979	1,562,648
Long-term liabilities due in more than one year	9,065,863	76,614	9,142,477
	10,621,532	83,593	10,705,125
Total Liabilities	10,908,515	512,799	11,421,314
<u>Deferred Inflows of Resources</u>			
Unearned revenue	6,053,803	-	6,053,803
<u>Net Position</u>			
Net investment in capital assets	7,371,683	6,130,803	13,502,486
Restricted for:			
Debt service	359,222	-	359,222
Metro	3,426,929	-	3,426,929
Enabling legislation	42,845	-	42,845
Unrestricted	3,417,182	3,328,882	6,746,064
	3,417,182	3,328,882	6,746,064
Total Net Position	\$ 14,617,861	\$ 9,459,685	\$ 24,077,546

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 719,790	\$ 537,222	\$ -
Public safety	2,823,401	74,808	134,000
Public works	1,015,080	-	-
Interest on fiscal charges	294,033	-	-
Total Governmental Activities	4,852,304	612,030	134,000
Business-Type Activities			
Water, sewer, and solid waste	2,628,146	3,193,945	-
Total Business-Type Activities	2,628,146	3,193,945	-
Total Primary Government	\$ 7,480,450	\$ 3,805,975	\$ 134,000

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>
\$ (182,568)	\$ -	\$ (182,568)
(2,614,593)	-	(2,614,593)
(1,015,080)	-	(1,015,080)
(294,033)	-	(294,033)
<u>(4,106,274)</u>	<u>-</u>	<u>(4,106,274)</u>
-	565,799	565,799
-	565,799	565,799
<u>(4,106,274)</u>	<u>565,799</u>	<u>(3,540,475)</u>
5,853,556	-	5,853,556
163,346	-	163,346
285,244	-	285,244
66,311	28,682	94,993
78,017	40,018	118,035
<u>6,446,474</u>	<u>68,700</u>	<u>6,515,174</u>
2,340,200	634,499	2,974,699
12,277,661	8,825,186	21,102,847
<u>\$ 14,617,861</u>	<u>\$ 9,459,685</u>	<u>\$ 24,077,546</u>

CITY OF BUNKER HILL VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2017

	General	Debt Service	Capital Projects	Nonmajor Governmental
<u>Assets</u>				
Cash and cash equivalents	\$ 4,976,444	\$ 956,883	\$ 3,143,808	\$ 449,351
Cash with agent	1,205,362	472,520	-	-
Receivables, net	1,681,171	654,638	-	-
Due from other funds	-	21,807	-	-
Total Assets	\$ 7,862,977	\$ 2,105,848	\$ 3,143,808	\$ 449,351
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 85,922	\$ -	\$ 120,176	\$ 3,209
Due to other funds	21,807	-	-	-
Total Liabilities	107,729	-	120,176	3,209
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	4,464,896	1,746,626	-	-
<u>Fund Balances</u>				
Restricted:				
Debt service	-	359,222	-	-
Metro	-	-	3,023,632	403,297
Enabling legislation	-	-	-	42,845
Assigned				
Emergency	814,578	-	-	-
Unassigned	2,475,774	-	-	-
Total Fund Balances	3,290,352	359,222	3,023,632	446,142
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,862,977	\$ 2,105,848	\$ 3,143,808	\$ 449,351

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 9,526,486
1,677,882
2,335,809
21,807
\$ 13,561,984

\$ 209,307
21,807
231,114

6,211,522

359,222
3,426,929
42,845

814,578
2,475,774
7,119,348

\$ 13,561,984

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CITY OF BUNKER HILL VILLAGE, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

December 31, 2017

Total fund balances for the governmental funds	\$ 7,119,348
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	453,460
Depreciable capital assets	24,250,864
Accumulated depreciation	(6,826,150)
Long-term liabilities and deferred outflows and inflows related to the net pension liability are not reported in the governmental funds.	
Net pension liability	(51,459)
Deferred outflows - pensions	103,825
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	157,719
Some liabilities, including bonds payable and accrued interest payable, are not reported as liabilities in the governmental funds.	
Accrued interest payable	(77,676)
Deferred charge on refunding	58,003
Long-term liabilities due within one year	(1,555,669)
Long-term liabilities due in more than one year	(9,014,404)
Net Position of Governmental Activities	\$ <u>14,617,861</u>

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>
Property taxes	\$ 4,140,024	\$ 1,707,481	\$ -	\$ -
Sales taxes	163,346	-	-	-
Charges for services	74,808	-	-	-
Franchise fees and local taxes	285,244	-	-	-
Fines and forfeitures	167,456	-	-	16,542
Licenses and permits	353,224	-	-	-
Investment income	57,804	5,448	-	3,059
Intergovernmental	-	-	-	134,000
Other	78,017	-	-	-
Total Revenues	5,319,923	1,712,929	-	153,601
 <u>Expenditures</u>				
Current:				
General government	657,958	-	-	-
Public safety	2,818,595	-	-	4,806
Public works	295,150	-	-	140,008
Debt service:				
Principal	-	1,475,000	-	-
Interest and fiscal charges	-	335,469	-	-
Capital outlay	5,445	-	638,115	64,630
Total Expenditures	3,777,148	1,810,469	638,115	209,444
Net Change in Fund Balances	1,542,775	(97,540)	(638,115)	(55,843)
Beginning fund balances	1,747,577	456,762	3,661,747	501,985
Ending Fund Balances	\$ 3,290,352	\$ 359,222	\$ 3,023,632	\$ 446,142

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 5,847,505
163,346
74,808
285,244
183,998
353,224
66,311
134,000
78,017

7,186,453

657,958
2,823,401
435,158

1,475,000
335,469
708,190

6,435,176

751,277

6,368,071

\$ 7,119,348

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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, 2017

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

Net changes in fund balances - total governmental funds	\$	751,277
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		688,228
Depreciation expense		(591,236)
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		6,051
Net pension liability and deferred outflows and inflows related to the net pension liability are not reported in the governmental funds.		
Net pension liability		(14,206)
Deferred outflows - pensions		(15,024)
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		1,475,000
Amortization of premium		35,648
Amortization of deferred charges		(14,353)
Accrued interest expense		20,141
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		(1,326)
Change in Net Position of Governmental Activities	\$	<u>2,340,200</u>

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

December 31, 2017

	<u>Business-Type Activities Enterprise</u>
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 3,074,921
Receivables, net	617,637
Total Current Assets	3,692,558
Noncurrent Assets	
Capital assets:	
Land	9,163
Construction in progress	1,991,930
Building	1,036,160
Infrastructure	10,794,231
Water rights	446,890
Machinery and equipment	400,821
Less accumulated depreciation	(8,548,392)
Total Net Depreciable Assets	4,129,710
Total Noncurrent Assets	6,130,803
Total Assets	9,823,361
<u>Deferred Outflows of Resources</u>	
Deferred outflows - pensions	149,123
<u>Liabilities</u>	
Current Liabilities	
Accounts payable and accrued liabilities	411,233
Customer deposits	17,973
Compensated absences	6,979
Total Current Liabilities	436,185
Noncurrent Liabilities	
Compensated absences	775
Net pension liability	75,839
Total Noncurrent Liabilities	76,614
Total Liabilities	512,799
<u>Net Position</u>	
Net investment in capital assets	6,130,803
Unrestricted	3,328,882
Total Net Position	\$ 9,459,685

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENSES,

AND CHANGES IN NET POSITION

PROPRIETARY FUND

For the Year Ended December 31, 2017

	<u>Business-Type Activities Enterprise</u>
<u>Operating Revenues</u>	
Water and sewer charges	\$ 3,193,945
Other	40,018
Total Operating Revenues	<u>3,233,963</u>
<u>Operating Expenses</u>	
Maintenance and operating expenses	2,319,209
Depreciation	308,937
Total Operating Expenses	<u>2,628,146</u>
Operating Income	605,817
<u>Nonoperating Revenues</u>	
Investment earnings	<u>28,682</u>
Change in Net Position	634,499
Beginning net position	<u>8,825,186</u>
Ending Net Position	<u>\$ 9,459,685</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, 2017

	Business-Type Activities <u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 3,226,410
Payments to suppliers	(1,779,347)
Payments to employees	(497,229)
Net Cash Provided by Operating Activities	<u>949,834</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(2,063,326)
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,063,326)</u>
<u>Cash Flows from Investing Activities</u>	
Interest received	28,682
Net Cash Provided by Investing Activities	<u>28,682</u>
Net Decrease in Cash and Cash Equivalents	(1,084,810)
Beginning cash and cash equivalents	<u>4,159,731</u>
Ending Cash and Cash Equivalents	<u><u>\$ 3,074,921</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 605,817
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	308,937
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(11,900)
Deferred outflows - pensions	21,640
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(77)
Customer deposits	4,347
Compensated absences	608
Net pension liability	<u>20,462</u>
Net Cash Provided by Operating Activities	<u><u>\$ 949,834</u></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, 2017

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 City 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 (through Memorial Villages Police Department and Village Fire Department), 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 on all of the nonfiduciary activities of the primary government. *Governmental activities*, which are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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 wastewater functions 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:

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

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.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects fund* is used to account for the expenditures of resources accumulated from the general fund and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

The City reports the following 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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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 fund) 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.

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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. Cash and Cash Equivalents

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.

2. Investments

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

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

4. 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 acquisition 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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

5. 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 outflow of resources (expense/expenditure) until then. The City has five items that qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

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 one item that qualifies for reporting in this category in the government-wide Statement of Net Position. On the Statement of Net Position, the City reports deferred inflows for property taxes that were levied for use in the next fiscal year. At the fund level, the City has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only 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.

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation. 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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 the interest earned in the debt service fund. Although 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.

8. 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.

9. 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.

10. Fund Balance Policies

Fund balances of governmental funds are 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).

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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's policy is to maintain a minimum unassigned fund balance in the general fund of six months of current year operating expenditures and an unrestricted net position in the enterprise fund of three months of current year operating expenses.

11. 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, 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.

12. Pensions

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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.

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. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

III. DETAILED NOTES ON ALL ACTIVITIES AND 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, 2017, fair market values of pledged securities and FDIC coverage exceeded bank balances.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise	Total
Property taxes	\$ 1,610,735	\$ 654,638	\$ -	\$ 2,265,373
Sales taxes	37,872	-	-	37,872
Accounts	-	-	625,215	625,215
Franchise fees	33,803	-	-	33,803
Allowance	(1,239)	-	(7,578)	(8,817)
Totals	\$ 1,681,171	\$ 654,638	\$ 617,637	\$ 2,953,446

C. Capital Assets

The following is a summary of changes in capital assets for governmental activities for the year:

	Primary Government			
	Beginning Balance	Increases	(Decreases)	
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 24,944	\$ -	\$ -	\$ 24,944
Construction in progress	-	428,516	-	428,516
Total capital assets, not being depreciated	24,944	428,516	-	453,460
Other capital assets:				
Infrastructure	23,411,205	259,712	-	23,670,917
Buildings	399,685	-	-	399,685
Vehicles and equipment	180,262	-	-	180,262
Total other capital assets	23,991,152	259,712	-	24,250,864
Less accumulated depreciation for:				
Infrastructure	(5,934,097)	(579,922)	-	(6,514,019)
Buildings	(136,427)	(8,669)	-	(145,096)
Vehicles and equipment	(164,390)	(2,645)	-	(167,035)
Total accumulated depreciation	(6,234,914)	(591,236)	-	(6,826,150)
Other capital assets, net	17,756,238	(331,524)	-	17,424,714
Total Governmental Activities Capital Assets, Net	\$ 17,781,182	\$ 96,992	\$ -	17,878,174
			Less associated debt	(10,564,494)
			Plus deferred loss on refunding	58,003
			Net investment in Capital Assets	\$ 7,371,683

Depreciation was charged to governmental functions as follows:

General government	\$ 11,314
Public works	579,922
Total Governmental Activities Depreciation Expense	\$ 591,236

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 9,163	\$ -	\$ -	\$ 9,163
Construction in progress	60,959	1,930,971	-	1,991,930
Total capital assets, not being depreciated	9,163	1,930,971	-	2,001,093
Other capital assets:				
Buildings	1,036,160	-	-	1,036,160
Water rights	446,890	-	-	446,890
Machinery and equipment	400,821	-	-	400,821
Infrastructure	10,661,876	132,355	-	10,794,231
Total other capital assets	12,039,957	132,355	-	12,678,102
Less accumulated depreciation for:				
Buildings	(1,006,349)	(2,832)	-	(1,009,181)
Water rights	(446,890)	-	-	(446,890)
Machinery and equipment	(263,487)	(16,814)	-	(280,301)
Infrastructure	(6,522,729)	(289,291)	-	(6,812,020)
Total accumulated depreciation	(7,942,957)	(308,937)	-	(8,548,392)
Other capital assets, net	4,097,000	(176,582)	-	4,129,710
Total Business-Type Activities				
Capital Assets, Net	\$ 4,106,163	\$ 1,754,389	\$ -	\$ 6,130,803

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 308,937
Total Business-Type Activities Depreciation Expense	\$ 308,937

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

D. Long-Term Debt

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

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds, notes and other payables:					
General obligation bonds	\$ 11,830,000	\$ -	\$ (1,475,000)	\$ 10,355,000	* \$ 1,515,000
Premium	245,142	-	(35,648)	209,494	* 35,648
Compensated absences	4,253	11,056	(9,730)	5,579	5,021
Net pension liability	37,253	14,206	-	51,459	-
Total Governmental Activities	\$ 12,116,648	\$ 25,262	\$ (1,520,378)	\$ 10,621,532	\$ 1,555,669
				\$ 9,065,863	
				\$ 10,564,494	
Business-Type Activities					
Compensated absences	\$ 7,146	\$ 15,786	\$ (15,178)	\$ 7,754	\$ 6,979
Net pension liability	55,377	20,462	-	75,839	-
Total Business-Type Activities	\$ 62,523	\$ 36,248	\$ (15,178)	\$ 83,593	\$ 6,979
				\$ 76,614	

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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Series 2009	3.380%	\$ 625,000
Series 2011	2.00-4.00%	6,065,000
Series 2012	3.00%	1,985,000
Series 2014	2.00-2.75%	1,680,000
Total Governmental Activities Long-Term Debt		\$ 10,355,000

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

Year Ending Dec 31	Governmental Activities		
	Principal	Interest	Total
2018	\$ 1,515,000	\$ 291,060	\$ 1,806,060
2019	915,000	258,238	1,173,238
2020	940,000	234,413	1,174,413
2021	975,000	209,110	1,184,110
2022	1,005,000	181,957	1,186,957
2023-2027	2,975,000	614,042	3,589,042
2028-2031	2,030,000	162,925	2,192,925
Total	\$ 10,355,000	\$ 1,951,745	\$ 12,306,745

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 (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, 2017

E. Fund Equity

As of December 31, 2017, \$42,845 of the City's total fund balance is restricted by enabling legislation.

F. Restatement of Fund Balance

The City has restated beginning fund balance for the reclassification of two funds as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Restricted Court</u>
Prior year ending fund balances	\$ 5,440,433	\$ -	\$ -
Fund reclassifications	(3,692,856)	3,661,747	31,109
Beginning fund balances - restated	<u>\$ 1,747,577</u>	<u>\$ 3,661,747</u>	<u>\$ 31,109</u>

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 that exceeded coverage amounts for the past three years.

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 that 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 that 15 addresses in the City of

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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 participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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>2017</u>	<u>2016</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% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to, but not yet receiving, benefits	5
Active employees	8
Total	<u>19</u>

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.78 percent and 11.38 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended December 31, 2017 were \$71,675, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Discount Rate

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Changes in the NPL

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 102,034	\$ -	\$ 102,034
Interest	184,637	-	184,637
Changes in benefit terms	-	-	-
Difference between expected and actual experience	21,467	-	21,467
Changes in assumptions	-	-	-
Contributions - employer	-	56,125	(56,125)
Contributions - employee	-	40,171	(40,171)
Net investment income	-	179,309	(179,309)
Benefit payments, including refunds of employee contributions	(124,545)	(124,545)	-
Administrative expense	-	(2,026)	2,026
Other changes	-	(109)	109
Net Changes	183,593	148,925	34,668
Balance at December 31, 2015	2,746,623	2,653,993	92,630
Balance at December 31, 2016	\$ 2,930,216	\$ 2,802,918	\$ 127,298

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability (Asset)	\$ 477,981	\$ 127,298	\$ (168,433)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the fiscal year ended December 31, 2017, the City recognized pension expense of \$143,180.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

At December 31, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual economic experience	\$ 34,653
Changes in actuarial assumptions	23,489
Net difference between projected and actual investment earnings	123,131
Contributions subsequent to the measurement date	71,675
Total	\$ 252,948

\$71,675 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense
2018	\$ 73,689
2019	65,786
2020	41,834
2021	(36)
Total	\$ 181,273

D. Other Post Employment Benefits

TMRS Supplemental Death Benefits 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; this coverage is an "other post employment benefit," or OPEB. For the year ended December 31, 2017, 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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

The City's contributions to the TMRS SDBF for the fiscal years ended 2017, 2016, and 2015 were \$315, \$287, and \$294, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years are shown below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Req. Contributions (Rate)	0.05%	0.05%	0.05%
Actual Contribution Made	0.05%	0.05%	0.05%
Percentage of ARC Contributed	100.00%	100.00%	100.00%

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, 2017, Metro contributed \$134,000 to the City. 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 added 234,780,000 gallons of credit for a total of 1,824,260,000 gallons of credit for use under this Agreement.

G. Related Organizations and Joint Ventures

Memorial Villages Police Department -- Health Insurance Benefits

In November 2006, the City entered into an insurance agreement (the "Agreement") by and between the Memorial Villages 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, 2017

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 statements for the year ended December 31, 2017, on which their auditors expressed an unmodified opinion, is as follows:

	VFD Total		City's Portion (19%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets and deferred outflows	\$ 3,671,155	\$ 411,383	\$ 697,519	\$ 78,163
Total liabilities and deferred inflows	1,963,617	43,973	373,087	8,355
Total Participants' Equity	\$ 1,707,538	\$ 367,410	\$ 324,432	\$ 69,808
	Change in Net Position	Revenues and Expenditures	Change in Net Position	Revenues and Expenditures
Total revenues	\$ 5,670,828	\$ 5,750,545	\$ 1,077,457	\$ 1,092,604
Total expenditures/expenses	5,612,442	6,491,784	1,066,364	1,233,439
Revenues over expenditures/expenses	58,386	(741,239)	11,093	(140,835)
Beginning participants' equity	1,649,152	1,108,649	313,339	210,643
Ending Participants' Equity	\$ 1,707,538	\$ 367,410	\$ 324,432	\$ 69,808
Net pension liability at 12/31/17 with TMRS	\$ 1,371,978		\$ 260,676	

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Memorial Villages Police Department

The City has also entered into an interlocal agreement (the "Agreement") with the cities of Piney Point Village and Hunters Creek Village to create the Memorial Villages 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 statements for the year ended December 31, 2017, on which their auditors expressed an unmodified opinion, is as follows:

	MVPD Total*		City's Portion (33%)	
	Net Position	Balance Sheet	Net Position	Balance Sheet
Total assets and deferred outflows	\$ 3,199,224	\$ 627,897	\$ 1,055,744	\$ 207,206
Total liabilities and deferred inflows	3,971,623	412,694	1,310,636	136,189
Total Participants' Equity	\$ (772,399)	\$ 215,203	\$ (254,892)	\$ 71,017
	Change in Net Position	Revenues and Expenditures	Change in Net Position	Revenues and Expenditures
Total revenues	\$ 5,038,967	\$ 5,038,967	\$ 1,662,859	\$ 1,662,859
Total expenditures/expenses	5,223,073	5,092,850	1,723,614	1,680,641
Revenues over expenditures/expenses	(184,106)	(53,883)	(60,755)	(17,781)
Beginning participants' equity	(588,293)	269,086	(194,137)	88,798
Ending Participants' Equity	\$ (772,399)	\$ 215,203	\$ (254,892)	\$ 71,017
Net pension liability				
at 12/31/17 with TMRS	\$ 2,718,010		\$ 896,943	
Actuarial accrued liability				
at 12/31/17 for OPEB	\$ 643,447		\$ 212,338	

* "Draft" figures as of the issuance date of the City's report.

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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, 2017

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 4,149,893	\$ 4,149,893	\$ 4,140,024	\$ (9,869)
Sales taxes	100,000	100,000	163,346	63,346
Charges for services	72,150	72,150	74,808	2,658
Franchise fees and local taxes	310,000	310,000	285,244	(24,756)
Fines and forfeitures	101,990	101,990	167,456	65,466
Licenses and permits	259,100	259,100	353,224	94,124
Investment income	26,000	26,000	57,804	31,804
Other	41,820	41,820	78,017	36,197
Total Revenues	5,060,953	5,060,953	5,319,923	258,970
Expenditures				
General government	812,270	778,402	657,958	120,444
Public safety	2,808,830	2,823,630	2,818,595	5,035
Public works	289,500	303,124	295,150	7,974
Capital outlay	1,150,353	1,155,797	5,445	1,150,352
Total Expenditures	5,060,953	5,060,953	3,777,148	1,283,805
Net Change in Fund Balance	\$ -	\$ -	1,542,775	\$ 1,542,775
Beginning fund balance			1,747,577	
			Ending Fund Balance	\$ 3,290,352

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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended December 31, 2017

	Measurement Year*		
	2015	2016	2017
Total Pension Liability			
Service cost	\$ 96,882	\$ 101,270	\$ 102,034
Interest (on the total pension liability)	164,373	175,323	184,637
Changes in benefit terms	-	-	-
Difference between expected and actual experience	17,523	26,875	21,467
Changes in assumptions	-	51,452	-
Benefit payments, including refunds of employee contributions	(124,545)	(124,545)	(124,545)
Net Change in Total Pension Liability	<u>154,233</u>	<u>230,375</u>	<u>183,593</u>
Beginning total pension liability	<u>2,362,015</u>	<u>2,516,248</u>	<u>2,746,623</u>
Ending Total Pension Liability	<u><u>\$ 2,516,248</u></u>	<u><u>\$ 2,746,623</u></u>	<u><u>\$ 2,930,216</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 52,297	\$ 57,835	\$ 56,125
Contributions - employee	39,364	41,143	40,171
Net investment income	146,739	3,951	179,309
Benefit payments, including refunds of employee contributions	(124,545)	(124,545)	(124,545)
Administrative expense	(1,533)	(2,407)	(2,026)
Other	(126)	(119)	(109)
Net Change in Plan Fiduciary Net Position	<u>112,196</u>	<u>(24,142)</u>	<u>148,925</u>
Beginning plan fiduciary net position	<u>2,565,939</u>	<u>2,678,135</u>	<u>2,653,993</u>
Ending Plan Fiduciary Net Position	<u><u>\$ 2,678,135</u></u>	<u><u>\$ 2,653,993</u></u>	<u><u>\$ 2,802,918</u></u>
Net Pension Liability (Asset)	<u><u>\$ (161,887)</u></u>	<u><u>\$ 92,630</u></u>	<u><u>\$ 127,298</u></u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	106.43%	96.63%	95.66%
Covered Employee Payroll	\$ 562,339	\$ 587,753	\$ 573,870
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	-28.79%	15.76%	22.18%

*Only three years of information is currently available. The City will build this schedule over the next seven-year period.

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CITY OF BUNKER HILL VILLAGE, TEXAS

SCHEDULE OF CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended December 31, 2017

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 52,297	\$ 57,835	\$ 56,125	\$ 71,675
Contributions in relation to the actuarially determined contribution	52,297	57,835	56,125	71,675
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 562,337	\$ 587,754	\$ 573,874	\$ 629,832
Contributions as a percentage of covered employee payroll	9.30%	9.84%	9.78%	11.38%

*Only four years of information is currently available. The City will build this schedule over the next six-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

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

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	13 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.5%
Salary increases	3.50% to 10.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

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COMBINING STATEMENTS AND SCHEDULES

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

For the Year Ended December 31, 2017

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 1,710,700	\$ 1,710,700	\$ 1,707,481	\$ (3,219)
Interest on investments	1,840	1,840	5,448	3,608
Total Revenues	1,712,540	1,712,540	1,712,929	389
Expenditures				
Debt Service:				
Principal	1,475,000	1,475,000	1,475,000	-
Interest and fiscal charges	336,718	336,718	335,469	1,249
Total Expenditures	1,811,718	1,811,718	1,810,469	1,249
Net Change in Fund Balance	\$ (99,178)	\$ (99,178)	(97,540)	\$ 1,638
Beginning fund balance			456,762	
		Ending Fund Balance	\$ 359,222	

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

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

December 31, 2017

	Special Revenue		Total Governmental Funds
	Metro	Restricted Court	
<u>Assets</u>			
Cash and cash equivalents	\$ 406,506	\$ 42,845	\$ 449,351
Total Assets	\$ 406,506	\$ 42,845	\$ 449,351
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 3,209	\$ -	\$ 3,209
Total Liabilities	3,209	-	3,209
<u>Fund Balances</u>			
Restricted:			
Metro	403,297	-	403,297
Enabling legislation	-	42,845	42,845
Total Fund Balances	403,297	42,845	446,142
Total Liabilities and Fund Balances	\$ 406,506	\$ 42,845	\$ 449,351

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

<u>Revenues</u>	Special Revenue		Total Governmental Funds
	Metro	Restricted Court	
Fines and forfeitures	\$ -	\$ 16,542	\$ 16,542
Intergovernmental	134,000	-	134,000
Investment income	3,059	-	3,059
Total Revenues	137,059	16,542	153,601
<u>Expenditures</u>			
Current:			
Public safety	-	4,806	4,806
Public works	140,008	-	140,008
Capital outlay	64,630	-	64,630
Total Expenditures	204,638	4,806	209,444
Net Change in Fund Balances	(67,579)	11,736	(55,843)
Beginning fund balances	470,876	31,109	501,985
Ending Fund Balances	\$ 403,297	\$ 42,845	\$ 446,142

See Notes to Financial Statements.

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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, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues</u>				
Intergovernmental	\$ 134,000	\$ 134,000	\$ 134,000	\$ -
Investment Income	1,000	1,000	3,059	2,059
Total Revenues	<u>135,000</u>	<u>135,000</u>	<u>137,059</u>	<u>2,059</u>
<u>Expenditures</u>				
Public works	133,200	168,200	140,008	28,192
Capital outlay	100,000	65,000	64,630	370
Total Expenditures	<u>233,200</u>	<u>233,200</u>	<u>204,638</u>	<u>28,562</u>
Net Change in Fund Balance	<u>\$ (98,200)</u>	<u>\$ (98,200)</u>	(67,579)	<u>\$ 30,621</u>
Beginning fund balance			<u>470,876</u>	
			<u>Ending Fund Balance</u>	<u>\$ 403,297</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, EXPENSES, AND CHANGES

IN NET POSITION - BUDGET AND ACTUAL

UTILITY FUND

For the Year Ended December 31, 2017

	Original Budget	Budget as Amended	Actual	Variance Positive (Negative)
<u>Operating Revenues</u>				
Water service	\$ 1,948,500	\$ 1,948,500	\$ 1,952,534	\$ 4,034
Waste water service	605,000	605,000	651,037	46,037
Solid waste service	595,340	595,340	590,374	(4,966)
Other/reserves	874,417	874,417	40,018	(834,399)
Total Operating Revenues	4,023,257	4,023,257	3,233,963	(789,294)
<u>Operating Expenses</u>				
Personnel	529,570	540,356	554,149	(13,793)
Commodities/maint/support	2,083,080	2,095,382	399,189	1,696,193
Water purchase COH	668,000	644,912	633,742	11,170
Waste water treatment	214,500	214,500	211,940	2,560
Solid waste collection	533,107	533,107	520,189	12,918
Depreciation/reserves	-	-	308,937	(308,937)
Total Operating Expenses	4,028,257	4,028,257	2,628,146	1,400,111
Operating Income (Loss)	(5,000)	(5,000)	605,817	610,817
<u>Nonoperating Revenue (Expense)</u>				
Investment earnings	5,000	5,000	28,682	23,682
Net Change in Net Position	\$ -	\$ -	634,499	\$ 634,499
Beginning net position			8,825,186	
Ending Net Position			\$ 9,459,685	

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