

ANNUAL FINANCIAL REPORT

of the

**CITY OF
BUNKER HILL VILLAGE, TEXAS**

**For the Year Ended
December 31, 2008**

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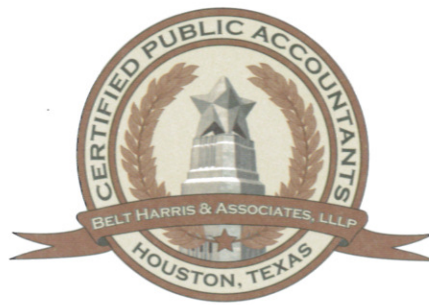
CITY OF BUNKER HILL VILLAGE, TEXAS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Bunker Hill Village, Texas (the "City"), as of December 31, 2008, and for the year ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The management's discussion and analysis on pages 5 through 12, budgetary comparison information on pages 46 and 47, and pension information on page 49, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Belt Harris & Associates, LLLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas
March 24, 2009

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

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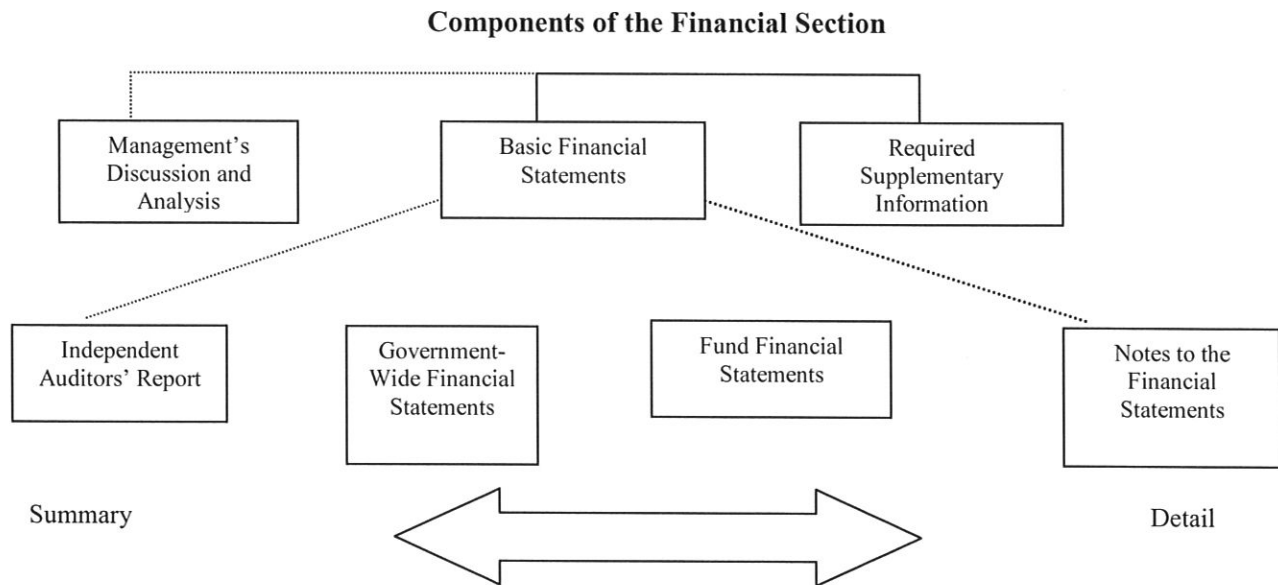
CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

December 31, 2008

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the City of Bunker Hill Village, Texas (the "City") financial activities for the year ending December 31, 2008. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board ("GASB") Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

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

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

December 31, 2008

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

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

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

1. Governmental Activities - Most of the City's basic services are reported here including police and fire protection, municipal court, streets, drainage, sanitation, and general administrative services. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-Type Activities - Services involving a fee for those services are reported here. These services include the City's water and sewer services.

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 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*.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

December 31, 2008

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service, capital projects, and metro funds, which are considered to be major funds. The City adopts an annual appropriated budget for its general fund and metro fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its water distribution and wastewater collection. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection. The 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 the basic financial statements, MD&A, and accompanying notes, this report also presents RSI. The RSI includes budgetary comparison schedules for the general fund and major special revenue funds and a schedule of funding progress for Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$9,012,764 as of December 31, 2008, in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A. A portion of the City's net assets (32.4%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF BUNKER HILL VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
December 31, 2008

Statement of Net Assets:

The following table reflects the condensed statement of net assets:

CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
	Current and other assets	\$ 8,370,494	\$ 8,267,862	\$ 1,554,129	\$ 1,195,501	\$ 9,924,623
Capital assets, net	11,402,664	10,490,542	4,675,351	4,634,695	16,078,015	15,125,237
Total Assets	19,773,158	18,758,404	6,229,480	5,830,196	26,002,638	24,588,600
Long-term liabilities	12,365,000	13,160,000	-	-	12,365,000	13,160,000
Other liabilities	4,601,973	4,332,934	22,901	108,303	4,624,874	4,441,237
Total Liabilities	16,966,973	17,492,934	22,901	108,303	16,989,874	17,601,237
Net Assets:						
Invested in capital assets, net of related debt	(1,757,336)	(3,424,458)	4,675,351	4,634,695	2,918,015	1,210,237
Unrestricted	4,563,521	4,689,928	1,531,228	1,087,198	6,094,749	5,777,126
Total Net Assets	\$ 2,806,185	\$ 1,265,470	\$ 6,206,579	\$ 5,721,893	\$ 9,012,764	\$ 6,987,363

The remaining balance of unrestricted net assets, \$6,094,749 or 67.6%, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by \$2,025,401 during the current fiscal year. This increase is largely the result of Metro grant revenue.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With one activity carrying the capital asset and another carrying the debt results in an unusual net asset presentation where governmental activities reports a negative net assets for invested in capital assets, net of related debt.

CITY OF BUNKER HILL VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
December 31, 2008

Statement of Activities:

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

CHANGES IN NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 377,035	\$ 421,795	\$ 1,838,351	\$ 1,394,680	\$ 2,215,386	\$ 1,816,475
Operating grants and contributions	1,501,100	3,263,250	-	-	1,501,100	3,263,250
General revenues:						
Property taxes	3,282,811	3,148,378	-	-	3,282,811	3,148,378
Sales, franchise, and other taxes	419,854	348,742	-	-	419,854	348,742
Interest revenue	103,897	358,184	14,131	31,053	118,028	389,237
Other revenues	135,212	93,797	-	-	135,212	93,797
Total Revenues	<u>5,819,909</u>	<u>7,634,146</u>	<u>1,852,482</u>	<u>1,425,733</u>	<u>7,672,391</u>	<u>9,059,879</u>
Expenses						
General government	462,010	487,263	-	-	462,010	487,263
Public safety	2,185,646	2,069,737	-	-	2,185,646	2,069,737
Public works	603,598	690,084	-	-	603,598	690,084
Interest and fiscal agent fees	613,188	638,892	-	-	613,188	638,892
Water and sewer	-	-	1,782,548	1,649,134	1,782,548	1,649,134
Total Expenses	<u>3,864,442</u>	<u>3,885,976</u>	<u>1,782,548</u>	<u>1,649,134</u>	<u>5,646,990</u>	<u>5,535,110</u>
Increase in Net Assets						
Before Transfers	1,955,467	3,748,170	69,934	(223,401)	2,025,401	3,524,769
Transfers	<u>(414,752)</u>	<u>(409,480)</u>	<u>414,752</u>	<u>409,480</u>	-	-
Change in Net Assets	1,540,715	3,338,690	484,686	186,079	2,025,401	3,524,769
Beginning Net Assets (Deficit)	<u>1,265,470</u>	<u>(2,073,220)</u>	<u>5,721,893</u>	<u>5,535,814</u>	<u>6,987,363</u>	<u>3,462,594</u>
Ending Net Assets (Deficit)	<u>\$ 2,806,185</u>	<u>\$ 1,265,470</u>	<u>\$ 6,206,579</u>	<u>\$ 5,721,893</u>	<u>\$ 9,012,764</u>	<u>\$ 6,987,363</u>

For the year ended December 31, 2008, revenues from governmental activities totaled \$5,819,909. Property tax revenues are normally the City's largest revenue source; however, in 2008, the City received \$3,263,250 from Metro. Property tax revenue increased by 4.3% because of the increase in assessed property values over the prior year.

For the year ended December 31, 2008, expenses for governmental activities totaled \$3,864,442. This represents a decrease of \$21,534 from last year. A contributing factor to the decrease is the City's emphasis to control costs.

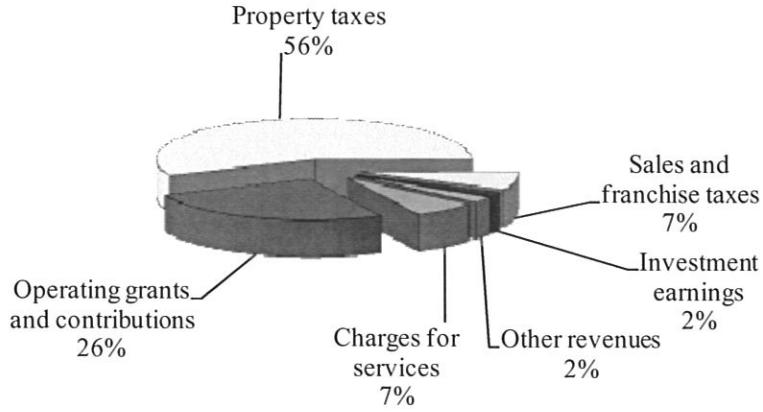
Business-type activities are shown comparing operating costs to revenues generated by related services. Operating revenues increased during the year due to the increase in utility rates resulting in an increase in net assets of \$69,934 before transfers.

CITY OF BUNKER HILL VILLAGE, TEXAS

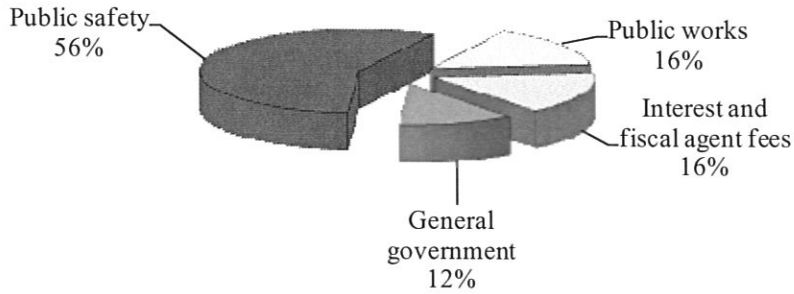
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

December 31, 2008

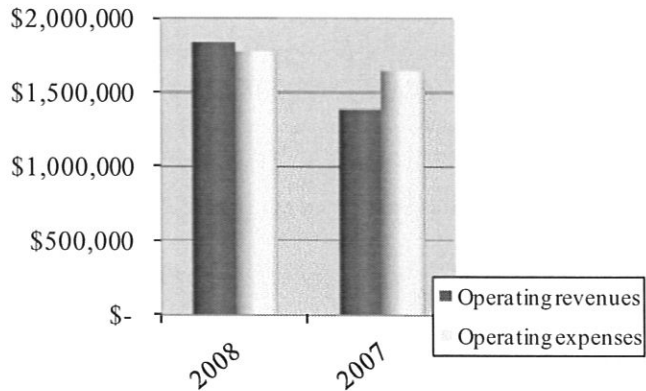
Governmental Activities - Revenues



Governmental Activities - Expenses



Business-Type Activities - Revenues and Expenses



CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

December 31, 2008

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, unreserved 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 \$4,563,240. Of this \$537,166, is reserved for debt service.

There was a decrease in the combined fund balance of \$109,956 over the prior year. The decrease is largely related to the capital projects completed during the year.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved, undesignated fund balance of the general fund was \$2,087,834. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved, undesignated fund balance represents over 76.7% of total general fund expenditures.

The debt service fund has a total fund balance of \$537,166, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$42,296. This increase can be attributed to the growth in property tax revenues as well as investment earnings.

The capital projects fund has a total fund balance of \$638,510, which is designated for capital projects. The net decrease in fund balance of \$790,047 was due to capital projects completed during the year.

The metro fund has a total fund balance of \$1,261,938, which is designated for metro projects. The net increase in fund balance of \$500,707 was due to interest revenue as well as unspent monies received from METRO during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in final budgeted fund balance in the amount of \$41,683 in the general fund. However, the net change in fund balance increased by \$137,088 resulting in a positive variance of \$178,771 from final budgeted over actual.

Final budgeted revenues exceeded actual revenues by \$56,329 during 2008. This variance is a result of the City receiving more than expected for most revenue sources with the exception of interest which was under by \$98,588 because of the decline in rates.

Final budgeted expenditures exceeded actual amounts by \$122,442 for the year, which is a positive variance.

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.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

December 31, 2008

CAPITAL ASSETS

At the end of year 2008, the City's governmental activities funds had invested \$11,402,664 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$912,122. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with a depreciation expense of \$352,397.

Some of the capital asset events during the current year include the following:

- Bunker Hill Road Construction
- Memorial/Gessner Road Construction

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 current year, the City had total certificates of obligation outstanding of \$9,150,000 and general obligation bonds of \$4,010,000 in governmental activities.

During the year, the City had a net reduction in the long-term debt of \$755,000. More detailed information about the City's long-term liabilities is presented in note III. D to the financial statements.

Current underlying ratings on debt issues are as follows:

	Moody's	Standard and
	Investors	Poor's
	Service	Poor's
Tax supported debt	<hr/> Aaa	<hr/> AAA

ECONOMIC FACTORS

The City's tax revenue continues to increase. The City has also seen an increase in franchise fees this year. The City is experiencing a continued increase in sales tax revenue. The City continues to experience growth due to new homes within City limits.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET ASSETS

December 31, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 4,290,364	\$ 1,354,955	\$ 5,645,319
Investments	1,461,091	-	1,461,091
Cash with agent	440,441	-	440,441
Receivables, net	2,023,131	319,496	2,342,627
Deferred charges	35,145	-	35,145
Internal balances	120,322	(120,322)	-
	8,370,494	1,554,129	9,924,623
Capital assets:			
Nondepreciable	24,944	9,163	34,107
Depreciable capital assets, net	11,377,720	4,666,188	16,043,908
	11,402,664	4,675,351	16,078,015
Total Assets	19,773,158	6,229,480	26,002,638
<u>Liabilities</u>			
Account payable and other current liabilities	213,969	17,901	231,870
Accrued interest payable	148,872	-	148,872
Deposits	20,000	5,000	25,000
Deferred revenue	3,424,132	-	3,424,132
	3,806,973	22,901	3,829,874
Noncurrent liabilities:			
Due within one year	795,000	-	795,000
Due in more than one year	12,365,000	-	12,365,000
	13,160,000	-	13,160,000
Total Liabilities	16,966,973	22,901	16,989,874
<u>Net Assets</u>			
Invested in capital assets, net of related debt	(1,757,336)	4,675,351	2,918,015
Unrestricted	4,563,521	1,531,228	6,094,749
Total Net Assets	\$ 2,806,185	\$ 6,206,579	\$ 9,012,764

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 462,010	\$ -	\$ -
Public safety	2,185,646	170,644	-
Public works	603,598	206,391	1,501,100
Interest on long-term debt	613,188	-	-
Total Governmental Activities	3,864,442	377,035	1,501,100
Business-Type Activities			
Water and sewer	1,782,548	1,838,351	-
Total Business-Type Activities	1,782,548	1,838,351	-
Total Primary Government	\$ 5,646,990	\$ 2,215,386	\$ 1,501,100

General Revenues

Property taxes
 Sales and franchise taxes
 Miscellaneous
 Interest revenue
 Transfers

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (462,010)	\$ -	\$ (462,010)
(513,902)	-	(513,902)
(397,207)	-	(397,207)
(613,188)	-	(613,188)
<u>(1,986,307)</u>	<u>-</u>	<u>(1,986,307)</u>
<u>-</u>	<u>55,803</u>	<u>55,803</u>
<u>-</u>	<u>55,803</u>	<u>55,803</u>
<u>(1,986,307)</u>	<u>55,803</u>	<u>(1,930,504)</u>
3,282,811	-	3,282,811
419,854	-	419,854
135,212	-	135,212
103,897	14,131	118,028
(414,752)	414,752	-
<u>3,527,022</u>	<u>428,883</u>	<u>3,955,905</u>
1,540,715	484,686	2,025,401
1,265,470	5,721,893	6,987,363
<u>\$ 2,806,185</u>	<u>\$ 6,206,579</u>	<u>\$ 9,012,764</u>

CITY OF BUNKER HILL VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2008

	General	Debt Service	Capital Projects	Metro
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 2,822,996	\$ 612,079	\$ 235,450	\$ 619,839
Investments	-	352,677	403,060	705,354
Cash with agent	264,663	175,778	-	-
Receivables, net	1,250,325	772,806	-	-
Due from other funds	183,577	-	-	-
Total Assets	\$ 4,521,561	\$ 1,913,340	\$ 638,510	\$ 1,325,193
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 213,969	\$ -	\$ -	\$ -
Deposits	20,000	-	-	-
Due to other funds	-	-	-	63,255
Deferred revenue	2,161,966	1,376,174	-	-
Total Liabilities	2,395,935	1,376,174	-	63,255
Fund Balances:				
Reserved for:				
Debt service	-	537,166	-	-
Child safety fees	37,792	-	-	-
Unreserved, undesignated reported in:				
General fund	2,087,834	-	-	-
Special revenue funds	-	-	-	1,261,938
Capital projects funds	-	-	638,510	-
Total Fund Balances	2,125,626	537,166	638,510	1,261,938
Total Liabilities and Fund Balances	\$ 4,521,561	\$ 1,913,340	\$ 638,510	\$ 1,325,193

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

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

Nondepreciable capital assets

Depreciable capital assets, net

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

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

Accrued interest payable

Deferred charges

Noncurrent liabilities due in one year

Noncurrent liabilities due in more than one year

Net Assets of Governmental Activities

See Notes to Financial Statements

**Total
Governmental
Funds**

\$ 4,290,364
1,461,091
440,441
2,023,131
183,577

\$ 8,398,604

\$ 213,969
20,000
63,255
3,538,140

3,835,364

537,166
37,792

2,087,834
1,261,938
638,510

4,563,240

24,944
11,377,720

114,008

(148,872)
35,145
(795,000)

(12,365,000)

\$ 2,806,185

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2008

	General	Debt Service	Capital Projects	Metro
Revenues				
Property taxes	\$ 1,905,276	\$ 1,395,722	\$ -	\$ -
Sales, franchise and other taxes	419,854	-	-	-
Permits and licenses	206,391	-	-	-
Fines and forfeitures	170,644	-	-	-
Intergovernmental	-	-	-	1,501,100
Interest on investments	51,412	16,498	20,652	15,335
Other revenue	135,212	-	-	-
Total Revenues	2,888,789	1,412,220	20,652	1,516,435
Expenditures				
Current:				
General government	422,035	-	-	20,000
Public works	80,996	-	-	-
Public safety	2,185,646	-	-	-
Capital outlay	34,898	-	838,825	995,728
Debt service:				
Principal	-	755,000	-	-
Interest and fiscal agent fees	-	614,924	-	-
Total Expenditures	2,723,575	1,369,924	838,825	1,015,728
Excess (Deficiency) of Revenues Over (Under) Expenditures	165,214	42,296	(818,173)	500,707
Other Financing Sources (Uses)				
Transfers in (out)	(28,126)	-	28,126	-
Total Other Financing Sources (Uses)	(28,126)	-	28,126	-
Net Change in Fund Balance	137,088	42,296	(790,047)	500,707
Beginning Fund Balances	1,988,538	494,870	1,428,557	761,231
Ending Fund Balances	\$ 2,125,626	\$ 537,166	\$ 638,510	\$ 1,261,938

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$	3,300,998
	419,854
	206,391
	170,644
	1,501,100
	103,897
	135,212
	<u>5,838,096</u>
	442,035
	80,996
	2,185,646
	1,869,451
	755,000
	614,924
	<u>5,948,052</u>
	<u>(109,956)</u>
	-
	-
	(109,956)
	<u>4,673,196</u>
\$	<u><u>4,563,240</u></u>

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CITY OF BUNKER HILL VILLAGE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

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

Net changes in fund balances - total governmental funds	\$ (109,956)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
Capital outlay	1,264,519
Depreciation	(352,397)
<p>The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.</p>	
Principal payments	755,000
<p>Revenue in the Statement of Activities that does not provide current financial resources are not reported as revenue in the funds.</p>	
	(18,187)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
	<u>1,736</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,540,715</u></u>

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUND

December 31, 2008

	<u>Business - Type</u> <u>Activities</u> <u>Enterprise</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,354,955
Accounts receivable, net	319,496
Total Current Assets	<u>1,674,451</u>
Noncurrent assets:	
Nondepreciable capital assets	9,163
Depreciable capital assets	10,161,391
Less: accumulated depreciation	<u>(5,495,203)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>4,675,351</u>
Total Noncurrent Assets	<u>4,675,351</u>
Total Assets	<u>6,349,802</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	17,901
Customer deposits	5,000
Due to other funds	120,322
Total Current Liabilities	<u>143,223</u>
Total Liabilities	<u>143,223</u>
<u>Net Assets</u>	
Invested in capital assets	4,675,351
Unrestricted	<u>1,531,228</u>
Total Net Assets	<u>\$ 6,206,579</u>

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUND

For the Year Ended December 31, 2008

	<u>Business - Type Activities Enterprise</u>
<u>Operating Revenues</u>	
Water and sewer billings	\$ 1,835,117
Miscellaneous	3,234
Total Operating Revenues	<u>1,838,351</u>
<u>Operating Expenses</u>	
Maintenance and operating expenses	1,408,451
Depreciation	374,097
Total Operating Expenses	<u>1,782,548</u>
Operating Loss	<u>55,803</u>
<u>Non-operating Revenues (Expenses)</u>	
Investment income	14,131
Total Nonoperating Revenues (Expenses)	<u>14,131</u>
Transfer in	414,752
Change in Net Assets	484,686
Beginning Net Assets	5,721,893
Ending Net Assets	<u>\$ 6,206,579</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, 2008

	<u>Business-Type Activities</u> <u>Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 1,773,620
Payments to suppliers	(859,561)
Payments to employees	(378,897)
Net Cash Provided by Operating Activities	<u>535,162</u>
<u>Cash Flows from Investing Activities</u>	
Interest received	14,131
Net Cash Provided by Investing Activities	<u>14,131</u>
Net Increase in Cash and Cash Equivalents	549,293
Beginning Cash and Cash Equivalents	<u>805,662</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,354,955</u></u>
Reconciliation of Operating (Loss)	
to Net Cash Provided by Operating Activities	
Operating income	\$ 55,803
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation	374,097
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Current Assets:	
Accounts receivable	(60,408)
Due from other funds	166,438
Increase (Decrease) in Current Liabilities:	
Accounts payable and accrued liabilities	(81,079)
Customer deposits	(4,323)
Due to other funds	84,634
Net Cash Provided by Operating Activities	<u><u>\$ 535,162</u></u>

See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

B. Financial Statement Presentation

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

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

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

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

C. Government-Wide and Fund Financial Statements

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

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

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

Governmental Funds

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

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes,

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

licenses and permits, fines and forfeitures, and charges for services. Expenditures consist of all costs associated with the daily operations of the City.

Special Revenue Funds

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

Debt Service Fund

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

Capital Projects Fund

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

Proprietary Fund Types

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

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

Enterprise Fund

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

D. Measurement Focus and Basis of Accounting

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

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

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

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

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

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

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

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

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

1. Deposits and Investments

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

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

- Direct obligations of the U.S. government
- Money market mutual funds that meet certain criteria
- Statewide investment pools

2. Receivables

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

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

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

Property taxes

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

3. Inventories and Prepaid Items

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

4. Capital Assets

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

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

5. Compensated Employee Absences

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

6. Long-Term Obligations

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

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

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

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

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

7. Fund Equity

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

8. Estimates

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2008

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise
Property taxes	\$ 1,166,411	\$ 803,736	\$ -
Sales and franchise	82,270	-	-
Accounts	-	-	321,854
Other	1,644	-	1,242
Less allowance	-	(30,930)	(3,600)
	\$ 1,250,325	\$ 772,806	\$ 319,496

C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 24,944	\$ -	\$ -	\$ 24,944
Total capital assets not being depreciated	24,944	-	-	24,944
Other capital assets:				
Buildings and improvements	393,160	6,525	-	399,685
Machinery and equipment	121,180	11,852	-	133,032
Infrastructure	12,006,454	1,246,142	-	13,252,596
Total other capital assets	12,520,794	1,264,519	-	13,785,313
Less accumulated depreciation for:				
Buildings and improvements	(58,402)	(8,669)	-	(67,071)
Machinery and equipment	(68,206)	(15,266)	-	(83,472)
Infrastructure	(1,928,588)	(328,462)	-	(2,257,050)
Total accumulated depreciation	(2,055,196)	(352,397)	-	(2,407,593)
Other capital assets, net	10,465,598	912,122	-	11,377,720
Totals	\$ 10,490,542	\$ 912,122	\$ -	\$ 11,402,664
		Less associated debt		(13,160,000)
		Invested in Capital Assets, Net of Related Debt		\$ (1,757,336)

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2008

Depreciation was charged to governmental functions as follows:

General government	\$	19,975
Public works		<u>332,422</u>
Total Governmental Activities Depreciation Expense	\$	<u>352,397</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)/ Reclassifications</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 9,163	\$ -	\$ -	\$ 9,163
Total capital assets not being depreciated	<u>9,163</u>	<u>-</u>	<u>-</u>	<u>9,163</u>
Other capital assets:				
Buildings	996,160	40,000	-	1,036,160
Water rights	446,890	-	-	446,890
Machinery and equipment	141,313	164,453	(25,562)	280,204
Infrastructure	8,162,275	235,862	-	8,398,137
Total other capital assets	<u>9,746,638</u>	<u>440,315</u>	<u>(25,562)</u>	<u>10,161,391</u>
Less accumulated depreciation for:				
Buildings	(932,068)	(21,923)	-	(953,991)
Water rights	(446,890)	-	-	(446,890)
Machinery and equipment	(108,262)	(15,271)	25,562	(97,971)
Infrastructure	(3,630,875)	(365,476)	-	(3,996,351)
Total accumulated depreciation	<u>(5,118,095)</u>	<u>(402,670)</u>	<u>25,562</u>	<u>(5,495,203)</u>
Other capital assets, net	<u>4,628,543</u>	<u>37,645</u>	<u>-</u>	<u>4,666,188</u>
Totals	<u>\$ 4,637,706</u>	<u>\$ 37,645</u>	<u>\$ -</u>	<u>\$ 4,675,351</u>
Invested in Capital Assets				<u>\$ 4,675,351</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	\$	<u>402,670</u>
Total Business-Type Activities Depreciation Expense	\$	<u>402,670</u>

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2008

D. Long-Term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities					
Bonds, notes and other payables:					
Certificates of obligation	\$ 9,590,000	\$ -	\$ 440,000	\$ 9,150,000 *	\$ 465,000
General obligation bonds	4,325,000	-	315,000	4,010,000 *	330,000
Total Governmental Activities	\$ 13,915,000	\$ -	\$ 755,000	\$ 13,160,000	\$ 795,000
Long-term debt due in more than one year				\$ 12,365,000	
*Debt associated with governmental activity capital assets				\$ 13,160,000	

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

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

Description	Interest Rates	Balance
Governmental Activities		
Certificates of Obligation		
Series 1999	4.00-4.65%	\$ 1,410,000
Series 2002	4.00-4.65%	4,925,000
Series 2005	3.50-5.50%	2,815,000
Total Certificates of Obligation		9,150,000
General Obligation Bonds		
Refunding Series 1999	4.00-4.65%	4,010,000
Total General Obligation Bonds		4,010,000
Total Governmental Activities Long-Term Debt		\$ 13,160,000

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

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

Year Ending Dec 31	<u>Governmental Activity</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 795,000	\$ 578,147	\$ 1,373,147
2010	825,000	541,223	1,366,223
2011	865,000	500,973	1,365,973
2012	905,000	460,138	1,365,138
2013	950,000	419,263	1,369,263
2014-2018	5,480,000	1,408,195	6,888,195
2019-2023	2,680,000	417,840	3,097,840
2024-2026	660,000	42,821	702,821
Total	\$ 13,160,000	\$ 4,368,600	\$ 17,528,600

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

Federal Arbitrage

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

E. Interfund Transactions

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

<u>Due To:</u>	<u>Due From:</u>	<u>Amounts</u>
General	Water	\$ 120,322
General	Metro	63,255
		<u>\$ 183,577</u>

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, Continued

December 31, 2008

Transfers during the year were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
Governmental Activities	Business-Type Activities	<u>\$ 440,314</u>

Transfers to business-type activities were for capital assets acquired during the year.

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 2,539 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

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

B. Pension Plans

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with five or more years of service or with 25 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is seven percent, and the City's matching ratio is currently two to one, both as adopted by City Council. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly.

Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007 valuation is effective for rates beginning January 2009).

All assumptions for the 12/31/07 valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level % of Payroll
Remaining Amortization Period	30 Years - Closed period
Asset Valuation Method	Amortized cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost of Living Adjustments	2.10%

Future Funding Requirements

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

provisions adopted by a city. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the Investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

Three-Year Contribution Information

Fiscal year	Annual Pension Percentage of ARC		Net Pension Obligation
	Cost (ARC)	Contributions	
2006	\$ 34,174	100%	\$ -
2007	\$ 38,846	100%	\$ -
2008	\$ 37,825	100%	\$ -

C. Agreement with Metro and Harris County

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

D. Interlocal Agreement for Water Conservation Credits

In 1995, the City entered into an interlocal agreement with the Harris-Galveston Coastal Subsidence District (the "District") for the purpose of sponsoring the establishment of water conservation goals, guidelines, and plans to be used within the District. Under this agreement, the District provides school curriculum kits and in-service training to teachers, as well as, provides all support functions for the program to certain schools. The City pays the District \$32.75 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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

District issued a new series of groundwater certificates that will have a lifespan of 20 years and can only be applied to a maximum of 30 percent of a permittee's total water demand. At year-end, the City has a total of 862,068,000 gallons of credit for use under this agreement: 269,760,000 gallons of Original Groundwater Series credits and 592,308,000 gallons of New Groundwater Series B credits.

E. Related Organizations and Joint Ventures

Memorial Village Police Department – Health Insurance Benefits

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

Memorial Villages Water Authority

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

Village Fire Department

The City has entered into an inter-local agreement with the Cities of Hunters Creek Village, Hedwig Village, Hillshire 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 the VFD's audited financial statement for the year ended December 31, 2008, on which the VFD's auditors expressed an unqualified opinion, are as follows:

	VFD Total		City's Portion (19%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 2,246,395	\$ 327,720	\$ 426,815	\$ 62,267
Total liabilities	642,364	47,119	122,049	8,953
Total participants' equity	\$ 1,604,031	\$ 280,601	\$ 304,766	\$ 53,314
	Change in Net Assets	Revenues and Expenditures	Change in Net Assets	Revenues and Expenditures
Total revenues	\$ 5,204,624	\$ 5,204,624	\$ 988,879	\$ 988,879
Total expenditures/expenses	5,106,186	5,387,149	970,175	1,023,558
Revenues over expenditures/expenses	98,438	(182,525)	18,703	(34,680)
Surplus refund to cities	(150,002)	(150,002)	(28,500)	(28,500)
Beginning participants' equity	1,655,595	613,128	314,563	116,494
Ending participants' equity	\$ 1,604,031	\$ 280,601	\$ 304,766	\$ 53,314
Unfunded Actuarial Accrued Liability at 12/31/07 with TMRS	\$ 5,435,651		\$ 1,032,774	

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS, *Continued*

December 31, 2008

Memorial Village Police Department

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

Consolidated financial information of the MVPD extracted from the MVPD’s audited financial statement for the year ended December 31, 2007, on which the MVPD’s auditors expressed an unqualified opinion, are as follows:

	Total MVPD		City's Portion (33%)	
	Net Assets	Balance Sheet	Balance Sheet	Balance Sheet
Total assets	\$ 2,660,755	\$ 513,792	\$ 878,049	\$ 169,551
Total liabilities	444,419	175,758	146,658	58,000
Total participants' equity	\$ 2,216,336	\$ 338,034	\$ 731,391	\$ 111,551
	Change in Net Assets	Revenues and Expenditures	Revenues and Expenditures	Revenues and Expenditures
Total revenues	\$ 3,637,853	\$ 3,522,681	\$ 1,200,492	\$ 1,162,485
Total expenditures/expenses	3,816,250	3,534,426	1,259,363	1,166,361
Revenues over expenditures/expenses	(178,397)	(11,745)	(58,871)	(3,876)
Surplus refund to cities	-	-	-	-
Beginning participants' equity	2,394,733	349,779	790,262	115,427
Ending participants' equity	\$ 2,216,336	\$ 338,034	\$ 731,391	\$ 111,551
Unfunded Actuarial Accrued Liability at 12/31/07 with TMRS	\$ 5,272,239		\$ 1,739,839	

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended December 31, 2008

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,888,267	\$ 1,888,267	\$ 1,905,276	\$ 17,009
Sales, franchise, and other taxes	320,000	320,000	419,854	99,854
Permits and licenses	199,800	199,800	206,391	6,591
Fines and forfeitures	138,240	138,240	170,644	32,404
Interest on investments	150,000	150,000	51,412	(98,588)
Other revenues	73,650	136,153	135,212	(941)
Total Revenues	<u>2,769,957</u>	<u>2,832,460</u>	<u>2,888,789</u>	<u>56,329</u>
Expenditures				
General government	463,762	485,192	422,035	63,157
Public works	70,000	81,500	80,996	504
Public safety	2,273,881	2,228,825	2,185,646	43,179
Capital outlay	46,000	50,500	34,898	15,602
Total Expenditures	<u>2,853,643</u>	<u>2,846,017</u>	<u>2,723,575</u>	<u>122,442</u>
Excess of Revenues Over (Under) Expenditures	<u>(83,686)</u>	<u>(13,557)</u>	<u>165,214</u>	<u>178,771</u>
Other Financing Sources (Uses)				
Transfers (out)	-	(28,126)	(28,126)	-
Net Change in Fund Balance	<u>\$ (83,686)</u>	<u>\$ (41,683)</u>	<u>137,088</u>	<u>\$ 178,771</u>
Beginning Fund Balance			<u>1,988,538</u>	
Ending Fund Balance			<u>\$ 2,125,626</u>	

Notes to Required Supplementary Information:

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

CITY OF BUNKER HILL VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2008

	Metro Fund			
	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental	\$ 129,000	\$ 1,501,100	\$ 1,501,100	\$ -
Interest on investments	10,000	10,000	15,335	5,335
Total Revenues	139,000	1,511,100	1,516,435	5,335
Expenditures				
Current:				
General government	20,000	20,000	20,000	-
Public works	98,310	1,470,410	995,728	474,682
Total Expenditures	118,310	1,490,410	1,015,728	474,682
Net Change in Fund Balance	\$ 20,690	\$ 20,690	500,707	\$ 480,017
Beginning Fund Balance			761,231	
		Ending Fund Balance	\$ 1,261,938	

Notes to Required Supplementary Information:

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

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CITY OF BUNKER HILL VILLAGE, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
December 31, 2008

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

Fiscal Year	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Actuarial Valuation Date	12/31/2007	12/31/2006	12/31/2005	12/31/2004	12/31/2003
Actuarial Value of Assets	\$ 1,421,953	\$ 1,296,315	\$ 1,267,794	\$ 1,122,933	\$ 987,239
Actuarial Accrued Liability	\$ 1,521,344	\$ 1,105,509	\$ 1,109,935	\$ 971,377	\$ 1,262,428
Percentage Funded	93.5%	117.3%	114.2%	115.6%	78.2%
Unfunded Actuarial					
Accrued Liability	\$ 99,391	\$ (190,806)	\$ (157,859)	\$ (151,556)	\$ 275,189
Annual Covered Payroll	\$ 429,846	\$ 358,145	\$ 372,026	\$ 356,103	\$ 345,651
Unfunded Actuarial Accrued Liability					
(UAAL) % of Covered Payroll	23.1%	-53.3%	-42.4%	-42.6%	79.6%