

ANNUAL FINANCIAL REPORT

of the

**CITY OF
BUNKER HILL VILLAGE, TEXAS**

For the Year Ended
December 31, 2016

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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, and each major fund of the City of Bunker Hill Village, Texas (the "City"), as of and for the year ended December 31, 2016, 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, and each major fund of the City as of December 31, 2016, 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 schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was 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 schedule is 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
June 13, 2017

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

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CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

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 three 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 Metro fund, which are considered to be major funds for reporting purposes. The Metro fund did not meet the criteria to be presented as a major fund; however, the City has elected to present it as major due to its significance.

The City adopts an annual appropriated budget for its general fund and 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, 2016

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 budgetary comparison schedules for the general fund and the Metro 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 \$21,102,847 as of year end.

A portion of the City's net position, 48.12 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, 2016

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	2016			2015		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets						
Current and other assets	\$ 12,478,186	\$ 4,765,468	\$ 17,243,654	\$ 11,161,245	\$ 4,478,521	\$ 15,639,766
Net pension asset	-	-	-	67,041	94,846	161,887
Capital assets, net	17,781,182	4,376,414	22,157,596	18,245,182	4,106,163	22,351,345
Total Assets	30,259,368	9,141,882	39,401,250	29,473,468	8,679,530	38,152,998
Deferred Outflows of Resources						
Deferred outflows - pensions	118,849	170,763	289,612	40,557	57,379	97,936
Deferred charge on refunding	72,356	-	72,356	86,707	-	86,707
Total Deferred Outflows	191,205	170,763	361,968	127,264	57,379	184,643
Liabilities						
Long-term liabilities	12,116,648	55,377	12,172,025	13,542,860	-	13,542,860
Other liabilities	222,605	432,082	654,687	219,513	129,387	348,900
Total Liabilities	12,339,253	55,377	12,826,712	13,762,373	129,387	13,891,760
Deferred Inflows of Resources						
Unearned revenue	5,833,659	-	5,833,659	5,331,873	-	5,331,873
Net Position						
Net investment in capital assets	5,778,396	4,376,414	10,154,810	4,791,100	4,106,163	8,897,263
Restricted	938,821	-	938,821	1,006,280	-	1,006,280
Unrestricted	5,560,444	4,448,772	10,009,216	4,709,106	4,501,359	9,210,465
Total Net Position	\$ 12,277,661	\$ 8,825,186	\$ 21,102,847	\$ 10,506,486	\$ 8,607,522	\$ 19,114,008

A portion of the City's net position, \$938,821, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net position, \$10,009,216, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved during the year primarily as a result of a decrease in long-term liabilities related to debt and an increase in property tax revenues.

The City's total net position increased by \$1,988,839 during the current fiscal year, an increase of ten 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, 2016

Statement of Activities

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

	For the Year Ended December 31, 2016			For the Year Ended December 31, 2015		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 478,253	\$ 3,014,256	\$ 3,492,509	\$ 438,224	\$ 2,799,293	\$ 3,237,517
Operating grants	134,000	-	134,000	134,000	-	134,000
General revenues:						
Property taxes	5,330,181	-	5,330,181	5,012,199	-	5,012,199
Sales and franchise taxes	405,772	-	405,772	428,310	-	428,310
Interest	34,785	18,002	52,787	13,600	6,722	20,322
Other	73,876	-	73,876	61,409	4,907	66,316
Total Revenues	6,456,867	3,032,258	9,489,125	6,087,742	2,810,922	8,898,664
Expenses						
General government	808,501	-	808,501	606,025	-	606,025
Public safety	2,615,433	-	2,615,433	2,495,643	-	2,495,643
Public works	917,945	-	917,945	1,012,780	-	1,012,780
Interest and fiscal charges	343,813	-	343,813	368,777	-	368,777
Water, sewer, and waste	-	2,814,594	2,814,594	-	2,426,643	2,426,643
Total Expenses	4,685,692	2,814,594	7,500,286	4,483,225	2,426,643	6,909,868
Change in Net Position	1,771,175	217,664	1,988,839	1,604,517	384,279	1,988,796
Beginning net position	10,506,486	8,607,522	19,114,008	8,901,969	8,223,243	17,125,212
Ending Net Position	\$ 12,277,661	\$ 8,825,186	\$ 21,102,847	\$ 10,506,486	\$ 8,607,522	\$ 19,114,008

Revenues for the governmental activities increased \$369,125, or six percent, due to an increase in property taxes. Governmental expenses reported an increase for the year of \$202,467, or five percent, due to the increase in general government and public safety expenses.

Revenues for business-type activities increased by \$221,336, or eight percent, primarily due to increases in interest and charges for services revenue. Expenses increased by \$387,951, or 16 percent, compared to the prior year due to increased water, sewer, and waste expenses.

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

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 \$6,368,071. Of this, \$470,876 is restricted for Metro, \$456,762 for debt service and \$11,183 is restricted for enabling legislation. The City has assigned \$2,534,155 for infrastructure and emergency purposes.

Overall, there was an increase in combined fund balance of \$919,768 in comparison to the prior year. The increase is primarily due to an increase in property tax revenue and overall reduction in capital expenditures in comparison to the prior year.

The general fund had revenues that exceeded expenditures by \$998,410. The increase is primarily due to an increase in property tax revenues, charges for services revenue, and licenses and permits revenue.

The debt service fund had a net reduction in fund balance for the year of \$96,186. The decrease is primarily due to an increase in principal payments.

The Metro fund had a net increase in fund balance of \$17,544. The increase is primarily due to less maintenance costs for the year.

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 \$75,971 during the year. This net variance is largely due to additional licenses and permits, sales tax, and other revenue over what was anticipated. General fund expenditures were under the final budget by \$922,439, mainly due to a large positive variance in capital outlay. These expenditures are expected to occur in the following fiscal year.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$22,157,596 in a variety of capital assets and infrastructure (net of accumulated depreciation). More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

Major capital asset events during the year included the following:

- Sanitary sewer rehabilitation work
- Water plant improvements

CITY OF BUNKER HILL VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2016

LONG-TERM DEBT

At the end of the year, the City had a total of \$12,116,648 in long-term liabilities. This balance consists of outstanding bonds, net pension liability and compensated absences for governmental 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 budgeted \$10,067,583 in general revenues and \$10,264,961 in expenditures for a projected decrease in fund balance of \$197,378 for the 2017 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET POSITION

December 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 8,631,878	\$ 4,159,731	\$ 12,791,609
Cash with agent	808,751	-	808,751
Receivables, net	3,037,557	605,737	3,643,294
	12,478,186	4,765,468	17,243,654
Capital assets:			
Nondepreciable capital assets	24,944	70,122	95,066
Net depreciable capital assets	17,756,238	4,306,292	22,062,530
	17,781,182	4,376,414	22,157,596
Total Assets	30,259,368	9,141,882	39,401,250
<u>Deferred Outflows of Resources</u>			
Deferred outflows - pension	118,849	170,763	289,612
Deferred charge on refunding	72,356	-	72,356
Total Deferred Outflows of Resources	191,205	170,763	361,968
<u>Liabilities</u>			
Accounts payable and other current liabilities	124,788	418,456	543,244
Accrued interest payable	97,817	-	97,817
Customer deposits	-	13,626	13,626
	222,605	432,082	654,687
Noncurrent liabilities:			
Long-term liabilities due within one year	1,478,828	-	1,478,828
Long-term liabilities due in more than one year	10,637,820	55,377	10,693,197
	12,116,648	55,377	12,172,025
Total Liabilities	12,339,253	487,459	12,826,712
<u>Deferred Inflows of Resources</u>			
Unearned revenue	5,833,659	-	5,833,659
<u>Net Position</u>			
Net investment in capital assets	5,778,396	4,376,414	10,154,810
Restricted for:			
Debt service	456,762	-	456,762
Metro	470,876	-	470,876
Enabling legislation	11,183	-	11,183
Unrestricted	5,560,444	4,448,772	10,009,216
	5,560,444	4,448,772	10,009,216
Total Net Position	\$ 12,277,661	\$ 8,825,186	\$ 21,102,847

See Notes to Financial Statements.

CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 808,501	\$ 403,043	\$ -
Public safety	2,615,433	75,210	134,000
Public works	917,945	-	-
Interest on fiscal charges	343,813	-	-
Total Governmental Activities	4,685,692	478,253	134,000
Business-Type Activities			
Water, sewer, and solid waste	2,814,594	3,014,256	-
Total Business-Type Activities	2,814,594	3,014,256	-
Total Primary Government	\$ 7,500,286	\$ 3,492,509	\$ 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>
\$ (405,458)	\$ -	\$ (405,458)
(2,406,223)	-	(2,406,223)
(917,945)	-	(917,945)
(343,813)	-	(343,813)
<u>(4,073,439)</u>	<u>-</u>	<u>(4,073,439)</u>
-	199,662	199,662
-	199,662	199,662
<u>(4,073,439)</u>	<u>199,662</u>	<u>(3,873,777)</u>
5,330,181	-	5,330,181
123,911	-	123,911
281,861	-	281,861
34,785	18,002	52,787
73,876	-	73,876
<u>5,844,614</u>	<u>18,002</u>	<u>5,862,616</u>
1,771,175	217,664	1,988,839
10,506,486	8,607,522	19,114,008
<u>\$ 12,277,661</u>	<u>\$ 8,825,186</u>	<u>\$ 21,102,847</u>

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CITY OF BUNKER HILL VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2016

	General	Debt Service	Metro	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 7,089,750	\$ 1,062,713	\$ 479,415	\$ 8,631,878
Cash with agent	572,550	236,201	-	808,751
Receivables, net	2,153,757	883,800	-	3,037,557
Due from other funds	-	21,807	-	21,807
Total Assets	\$ 9,816,057	\$ 2,204,521	\$ 479,415	\$ 12,499,993
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 116,249	\$ -	\$ 8,539	\$ 124,788
Due to other funds	21,807	-	-	21,807
Total Liabilities	138,056	-	8,539	146,595
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	4,237,568	1,747,759	-	5,985,327
<u>Fund Balances</u>				
Restricted:				
Debt service	-	456,762	-	456,762
Metro	-	-	470,876	470,876
Enabling legislation	11,183	-	-	11,183
Assigned				
Infrastructure	1,651,718	-	-	1,651,718
Emergency	882,437	-	-	882,437
Police department	36,586	-	-	36,586
Unassigned	2,858,509	-	-	2,858,509
Total Fund Balances	5,440,433	456,762	470,876	6,368,071
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 9,816,057	\$ 2,204,521	\$ 479,415	\$ 12,499,993

See Notes to Financial Statements.

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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, 2016

Total fund balance for the governmental funds \$ 6,368,071

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	24,944
Depreciable capital assets	23,991,152
Accumulated depreciation	(6,234,914)

Long-term liabilities and deferred outflows and inflows related to the net pension asset are not reported in the governmental funds.

Net pension liability	(37,253)
Deferred outflows - pensions	118,849

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	151,668
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Some liabilities, including bonds payable and accrued interest payable, are not reported as liabilities in the governmental funds.

Accrued interest payable	(97,817)
Deferred charge on refunding	72,356
Long-term liabilities due within one year	(1,478,828)
Long-term liabilities due in more than one year	(10,600,567)

Net Position of Governmental Activities	\$ 12,277,661
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See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Metro</u>	<u>Total Governmental Funds</u>
Property taxes	\$ 3,742,639	\$ 1,704,944	\$ -	\$ 5,447,583
Sales taxes	123,911	-	-	123,911
Charges for services	75,210	-	-	75,210
Franchise fees and local taxes	281,861	-	-	281,861
Fines and forfeitures	102,509	-	-	102,509
Licenses and permits	300,534	-	-	300,534
Investment income	29,449	3,676	1,660	34,785
Intergovernmental	-	-	134,000	134,000
Other	73,876	-	-	73,876
Total Revenues	<u>4,729,989</u>	<u>1,708,620</u>	<u>135,660</u>	<u>6,574,269</u>
Expenditures				
Current:				
General government	646,344	-	-	646,344
Public safety	2,615,433	-	-	2,615,433
Public works	264,940	-	107,855	372,795
Debt service:				
Principal	-	1,430,000	-	1,430,000
Interest and fiscal charges	-	374,806	-	374,806
Capital outlay	<u>204,862</u>	<u>-</u>	<u>10,261</u>	<u>215,123</u>
Total Expenditures	<u>3,731,579</u>	<u>1,804,806</u>	<u>118,116</u>	<u>5,654,501</u>
Net Change in Fund Balances	998,410	(96,186)	17,544	919,768
Beginning fund balances	<u>4,442,023</u>	<u>552,948</u>	<u>453,332</u>	<u>5,448,303</u>
Ending Fund Balances	<u>\$ 5,440,433</u>	<u>\$ 456,762</u>	<u>\$ 470,876</u>	<u>\$ 6,368,071</u>

See Notes to Financial Statements.

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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, 2016

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

Net changes in fund balances - total governmental funds	\$	919,768
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital asset acquisitions and retirements		114,222
Depreciation expense		(578,222)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(117,402)
Net change in deferred revenue		

Net pension liability and deferred outflows and inflows related to the net pension liability are not reported in the governmental funds.		
Net pension liability		(104,294)
Deferred outflows - pension		78,292

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		1,430,000
Amortization of premium		35,647
Amortization of deferred charges		(14,351)
Accrued interest expense		9,697

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		(2,182)
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Change in Net Position of Governmental Activities	\$	1,771,175
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See Notes to Financial Statements.

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CITY OF BUNKER HILL VILLAGE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

December 31, 2016

	<u>Business-Type Activities Enterprise</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 4,159,731
Receivables, net	605,737
Total Current Assets	<u>4,765,468</u>
Noncurrent Assets	
Capital assets:	
Land	9,163
Construction in progress	60,959
Building	1,036,160
Infrastructure	10,661,876
Water rights	446,890
Machinery and equipment	400,821
Less accumulated depreciation	<u>(8,239,455)</u>
Total Net Depreciable Assets	<u>4,306,292</u>
Total Noncurrent Assets	<u>4,376,414</u>
Total Assets	<u>9,141,882</u>
Deferred Outflows of Resources	
Deferred outflows - pension	<u>170,763</u>
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	418,456
Customer deposits	13,626
Total Current Liabilities	<u>432,082</u>
Noncurrent Liabilities	
Net pension liability	<u>55,377</u>
Total Noncurrent Liabilities	<u>55,377</u>
Total Liabilities	<u>487,459</u>
Net Position	
Net investment in capital assets	4,376,414
Unrestricted	4,448,772
Total Net Position	<u>\$ 8,825,186</u>

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, 2016

	<u>Business-Type Activities</u>
<u>Operating Revenues</u>	
Water and sewer charges	\$ 3,014,256
Total Operating Revenues	<u>3,014,256</u>
<u>Operating Expenses</u>	
Maintenance and operating expenses	2,518,096
Depreciation	296,498
Total Operating Expenses	<u>2,814,594</u>
Operating Income	199,662
<u>Nonoperating Revenues</u>	
Investment earnings	<u>18,002</u>
Change in Net Position	217,664
Beginning net position	<u>8,607,522</u>
Ending Net Position	<u><u>\$ 8,825,186</u></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, 2016

	Business-Type Activities Enterprise
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 2,928,429
Payments to suppliers	(1,736,461)
Payments to employees	(448,235)
Net Cash Provided by Operating Activities	743,733
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition and construction of capital assets	(566,749)
Net Cash (Used) by Capital and Related Financing Activities	(566,749)
<u>Cash Flows from Investing Activities</u>	
Interest received	18,002
Net Cash Provided by Investing Activities	18,002
Net Increase in Cash and Cash Equivalents	194,986
Beginning cash and cash equivalents	3,964,745
Ending Cash and Cash Equivalents	\$ 4,159,731
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 199,662
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	296,498
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(91,961)
Deferred outflows - Pension	(113,384)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	296,561
Customer deposits	6,134
Net pension liability	150,223
Net Cash Provided by Operating Activities	\$ 743,733

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, 2016

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 (through Memorial Village 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, 2016

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

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 fund* is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund is the Metro fund and the City has elected to present it as a major fund for reporting purposes.

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.

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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 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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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 estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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 four items that qualifies for reporting in this category. 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 Department'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 Department'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, 2016

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, 2016

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 (asset), 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, 2016

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, 2016, 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, 2016

B. Receivables

The following comprise receivable balances at year end:

	General	Debt Service	Enterprise	Total
Property taxes	\$ 2,086,606	\$ 883,800	\$ -	\$ 2,970,406
Sales taxes	25,043	-	-	25,043
Accounts	-	-	613,314	613,314
Franchise fees	43,198	-	-	43,198
Allowance	(1,090)	-	(7,577)	(8,667)
Totals	\$ 2,153,757	\$ 883,800	\$ 605,737	\$ 3,643,294

C. Capital Assets

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

	Primary Government			
	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:				
Infrastructure	23,296,983	114,222	-	23,411,205
Buildings	399,685	-	-	399,685
Vehicles and equipment	180,262	-	-	180,262
Total other capital assets	23,876,930	114,222	-	23,991,152
Less accumulated depreciation for:				
Infrastructure	(5,368,951)	(565,146)	-	(5,934,097)
Buildings	(127,757)	(8,670)	-	(136,427)
Vehicles and equipment	(159,984)	(4,406)	-	(164,390)
Total accumulated depreciation	(5,656,692)	(578,222)	-	(6,234,914)
Other capital assets, net	18,220,238	(464,000)	-	17,756,238
Total Governmental Activities Capital Assets, Net	\$ 18,245,182	\$ (464,000)	\$ -	\$ 17,781,182
			Less associated debt	(12,075,142)
			Plus deferred loss on refunding	72,356
			Net investment in Capital Assets	\$ 5,778,396

Depreciation was charged to governmental functions as follows:

General government	\$ 13,076
Public works	565,146
Total Governmental Activities Depreciation Expense	\$ 578,222

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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	-	60,959
Total capital assets, not being depreciated	9,163	60,959	-	70,122
Other capital assets:				
Buildings	1,036,160	-	-	1,036,160
Water rights	446,890	-	-	446,890
Machinery and equipment	400,821	-	-	400,821
Infrastructure	10,156,086	505,790	-	10,661,876
Total other capital assets	12,039,957	505,790	-	12,545,747
Less accumulated depreciation for:				
Buildings	(1,003,517)	(2,832)	-	(1,006,349)
Water rights	(446,890)	-	-	(446,890)
Machinery and equipment	(244,416)	(19,071)	-	(263,487)
Infrastructure	(6,248,134)	(274,595)	-	(6,522,729)
Total accumulated depreciation	(7,942,957)	(296,498)	-	(8,239,455)
Other capital assets, net	4,097,000	209,292	-	4,306,292
Total Business-Type Activities				
Capital Assets, Net	\$ 4,106,163	\$ 270,251	\$ -	\$ 4,376,414

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 296,498
Total Business-Type Activities Depreciation Expense	\$ 296,498

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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	\$ 13,260,000	\$ -	\$ (1,430,000)	\$ 11,830,000	* \$ 1,475,000
Premium	280,789	-	(35,647)	245,142	*
Compensated absences	2,071	2,182	-	4,253	3,828
Net pension liability	-	37,253	-	37,253	-
Total Governmental Activities	\$ 13,542,860	\$ 39,435	\$ (1,465,647)	\$ 12,116,648	\$ 1,478,828
				Long-term debt due in more than one year	\$ 10,637,820
				*Debt associated with governmental activities capital assets	\$ 12,075,142

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Business Type Activities					
Net pension liability	\$ -	\$ 55,377	\$ -	\$ 55,377	\$ -
Total Governmental Activities	\$ -	\$ 55,377	\$ -	\$ 55,377	\$ -
				Long-term debt due in more than one year	\$ 55,377

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, 2016

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

Description	Interest Rates	Balance
Governmental Activities		
General Obligation Bonds		
Series 2009	2.00-3.38%	\$ 1,235,000
Series 2011	2.00-4.00%	6,410,000
Series 2012	2.00-3.00%	2,345,000
Series 2014	2.00-2.50%	1,840,000
Total Governmental Activities Long-Term Debt		\$ 11,830,000

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

Year Ending Dec 31	Governmental Activities		
	Principal	Interest	Total
2017	\$ 1,475,000	\$ 332,719	\$ 1,807,719
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
2022-2026	3,515,000	710,602	4,225,602
2027-2031	2,495,000	248,322	2,743,322
Total	\$ 11,830,000	\$ 2,284,463	\$ 14,114,463

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, 2016

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 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.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 866 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. 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>2016</u>	<u>2015</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/hrs 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, 2016

Employees Covered by Benefit Terms

At the December 31, 2015 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	3
Active employees	8
Total	<u>17</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 9.84 percent and 9.75 percent in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended December 31, 2016 were \$55,953, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015 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, 2015 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, 2016

Actuarial assumptions used in the December 31, 2015 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. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. 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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	<u><u>100.00%</u></u>	

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, 2016

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 101,270	\$ -	\$ 101,270
Interest	175,323	-	175,323
Change of benefit terms	-	-	-
Difference between expected and actual experience	26,875	-	26,875
Changes of assumptions	51,452	-	51,452
Contributions - employer	-	57,835	(57,835)
Contributions - employee	-	41,143	(41,143)
Net investment income	-	3,951	(3,951)
Benefit payments, including refunds of employee contributions	(124,545)	(124,545)	-
Administrative expense	-	(2,407)	2,407
Other changes	-	(119)	119
Net Changes	<u>230,375</u>	<u>(24,142)</u>	<u>254,517</u>
Balance at December 31, 2014	2,516,248	2,678,135	(161,887)
Balance at December 31, 2015	<u><u>\$ 2,746,623</u></u>	<u><u>\$ 2,653,993</u></u>	<u><u>\$ 92,630</u></u>

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	<u>\$ 419,474</u>	<u>\$ 92,630</u>	<u>\$ (183,498)</u>

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.tmrs.com.

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

For the fiscal year ended December 31, 2016, the City recognized pension expense of \$118,795.

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

At December 31, 2016, 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	\$ 29,648
Changes in actuarial assumptions	37,470
Difference between projected and actual investment earnings	166,541
Contributions subsequent to the measurement date	55,953
Total	\$ 289,612

\$55,953 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense
2017	\$ 68,288
2018	68,288
2019	60,380
2020	36,702
2021	-
Thereafter	-
Total	\$ 233,658

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, 2016, 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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal years ended 2016, 2015, and 2014 were \$287, \$294, and \$225, respectively, which equaled the required contributions each year. The City's contribution for the past three years are shown below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Req. Contributions (Rate)	0.05%	0.05%	0.04%
Actual Contribution Made	0.05%	0.05%	0.04%
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, 2016, 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 Village Police Department – Health Insurance Benefits

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

Memorial Villages Water Authority

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

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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 Villages and Spring Valley Village to create the Village Fire Department (VFD). The Agreement automatically renews for a period of five years unless terminated by at least one of the contracting cities. Under the terms of the Agreement, the City is liable for 19 percent of the VFD's budget. Consolidated financial information of the VFD extracted from its audited financial statement for the year ended December 31, 2016, 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	\$ 4,037,202	\$ 1,187,507	\$ 767,068	\$ 225,626
Total liabilities and deferred inflows	2,388,050	78,858	453,730	14,983
Total Participants' Equity	\$ 1,649,152	\$ 1,108,649	\$ 313,339	\$ 210,643
	Change in Net Position	Revenues and Expenditures	Change in Net Position	Revenues and Expenditures
Total revenues	\$ 5,485,585	\$ 5,485,585	\$ 1,042,261	\$ 1,042,261
Total expenditures/expenses	5,725,908	5,254,499	1,087,923	998,355
Revenues over expenditures/expenses	(240,323)	231,086	(45,661)	43,906
Beginning participants' equity	1,889,475	877,563	359,000	166,737
Ending Participants' Equity	\$ 1,649,152	\$ 1,108,649	\$ 313,339	\$ 210,643
Net pension liability at 12/31/15 with TMRS	\$ 2,045,765		\$ 388,695	

CITY OF BUNKER HILL VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2016

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 Village Police Department (MVPD). Under the terms of the Agreement, the City is liable for 33 percent of the MVPD's budget.

Consolidated financial information of the MVPD extracted from the its audited financial statements for the year ended December 31, 2016, on which their auditors expressed an unmodified opinion, is as follows:

	<u>MVPD Total</u>		<u>City's Portion (33%)</u>	
	<u>Net Position</u>	<u>Balance Sheet</u>	<u>Net Position</u>	<u>Balance Sheet</u>
Total assets and deferred outflows	\$ 2,921,196	\$ 473,434	\$ 963,995	\$ 156,233
Total liabilities and deferred inflows	3,489,651	139,827	1,151,585	46,143
Total Participants' Equity	<u>\$ (568,455)</u>	<u>\$ 333,607</u>	<u>\$ (187,590)</u>	<u>\$ 110,090</u>
	<u>Change in</u>	<u>Revenues and</u>	<u>Change in</u>	<u>Revenues and</u>
	<u>Net Position</u>	<u>Expenditures</u>	<u>Net Position</u>	<u>Expenditures</u>
Total revenues	\$ 4,874,744	\$ 4,874,744	\$ 1,608,666	\$ 1,608,666
Total expenditures/expenses	5,314,218	4,804,614	1,753,692	1,585,523
Revenues over expenditures/expenses	(439,474)	70,130	(145,026)	23,143
Beginning participants' equity	(128,981)	263,477	(42,564)	86,947
Ending Participants' Equity	<u>\$ (568,455)</u>	<u>\$ 333,607</u>	<u>\$ (187,590)</u>	<u>\$ 110,090</u>
Net Pension Liability				
at 12/31/15 with TMRS	<u>\$ 2,565,167</u>		<u>\$ 846,505</u>	
Actuarial Accrued Liability				
at 1/1/15 for OPEB	<u>\$ 588,654</u>		<u>\$ 194,256</u>	

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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, 2016

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Property taxes	\$ 3,757,138	\$ 3,757,138	\$ 3,742,639	\$ (14,499)
Sales taxes	100,000	100,000	123,911	23,911
Charges for services	76,140	76,140	75,210	(930)
Franchise fees and local taxes	310,000	310,000	281,861	(28,139)
Fines and forfeitures	101,990	101,990	102,509	519
Licenses and permits	259,100	259,100	300,534	41,434
Investment income	7,830	7,830	29,449	21,619
Other	41,820	41,820	73,876	32,056
Total Revenues	<u>4,654,018</u>	<u>4,654,018</u>	<u>4,729,989</u>	<u>75,971</u>
Expenditures				
General government	777,975	753,587	646,344	107,243
Public safety	2,698,933	2,698,933	2,615,433	83,500
Public works	289,500	313,888	264,940	48,948
Capital outlay	770,000	770,000	204,862	565,138
Reserves	117,610	117,610	-	117,610
Total Expenditures	<u>4,654,018</u>	<u>4,654,018</u>	<u>3,731,579</u>	<u>922,439</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	998,410	<u>\$ 998,410</u>
Beginning fund balance			<u>4,442,023</u>	
		Ending Fund Balance	<u>\$ 5,440,433</u>	

Notes to Required Supplementary Information:

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

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

For the Year Ended December 31, 2016

	<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	1,660	660
Total Revenues	<u>135,000</u>	<u>135,000</u>	<u>135,660</u>	<u>660</u>
<u>Expenditures</u>				
Public works	135,000	135,000	107,855	27,145
Capital outlay	-	-	10,261	(10,261)
Total Expenditures	<u>135,000</u>	<u>135,000</u>	<u>118,116</u>	<u>16,884</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	17,544	<u>\$ 17,544</u>
Beginning fund balance			<u>453,332</u>	
			<u>Ending Fund Balance</u>	<u>\$ 470,876</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 CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended December 31, 2016

	Measurement Year*	
	2015	2016
Total Pension Liability		
Service cost	\$ 96,882	\$ 101,270
Interest (on the total pension liability)	164,373	175,323
Changes of benefit terms	-	-
experienceDifference between expected and actual	17,523	26,875
Change of assumptions	-	51,452
Benefit payments, including refunds of employee contributions	(124,545)	(124,545)
Net Change in Total Pension Liability	154,233	230,375
Beginning total pension liability	2,362,015	2,516,248
Ending Total Pension Liability	\$ 2,516,248	\$ 2,746,623
Plan Fiduciary Net Position		
Contributions - employer	\$ 52,297	\$ 57,835
Contributions - employee	39,364	41,143
Net investment income	146,739	3,951
Benefit payments, including refunds of employee contributions	(124,545)	(124,545)
Administrative expense	(1,533)	(2,407)
Other	(126)	(119)
Net Change in Plan Fiduciary Net Position	112,196	(24,142)
Beginning plan fiduciary net position	2,565,939	2,678,135
Ending Plan Fiduciary Net Position	\$ 2,678,135	\$ 2,653,993
Net Pension Liability (Asset)	\$ (161,887)	\$ 92,630
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	106.43%	96.63%
Covered Employee Payroll	\$ 562,339	\$ 587,753
Net Pension Liability as a Percentage of Covered Employee Payroll	-28.79%	15.76%

*Only two years of information is currently available. The City will build this schedule over the next eight-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, 2016

	Fiscal Year*		
	2014	2015	2016
Actuarially determined contribution	\$ 52,297	\$ 57,835	\$ 55,953
Contributions in relation to the actuarially determined contribution	52,297	57,835	55,953
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 562,337	\$ 587,754	\$ 573,874
Contributions as a percentage of covered employee payroll	9.30%	9.84%	9.75%

*Only three years of information is currently available. The City will build this schedule over the next seven-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	25 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	6.25%
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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OTHER SUPPLEMENTARY INFORMATION

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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, 2016

	<u>Original Budget</u>	<u>Budget as Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Operating Revenues</u>				
Water service	\$ 1,958,750	\$ 1,958,750	\$ 1,909,631	\$ (49,119)
Waste water service	605,000	605,000	561,549	(43,451)
Solid waste service	578,000	578,000	543,076	(34,924)
Total Operating Revenues	<u>3,141,750</u>	<u>3,141,750</u>	<u>3,014,256</u>	<u>(127,494)</u>
<u>Operating Expenses</u>				
Personnel	501,400	504,665	485,074	19,591
Commodities/maint/support	1,075,205	971,120	923,622	47,498
Water purchase COH	600,000	685,389	685,389	-
Waste water treatment	245,000	260,431	210,431	50,000
Depreciation/reserves	715,000	715,000	510,078	204,922
Total Operating Expenses	<u>3,136,605</u>	<u>3,136,605</u>	<u>2,814,594</u>	<u>322,011</u>
Operating Income (Loss)	<u>5,145</u>	<u>5,145</u>	<u>199,662</u>	<u>194,517</u>
<u>Nonoperating Revenue (Expense)</u>				
Investment earnings	-	-	18,002	18,002
Net Change in Net Position	<u>\$ 5,145</u>	<u>\$ 5,145</u>	<u>217,664</u>	<u>\$ 212,519</u>
Beginning net position			<u>8,607,522</u>	
Ending Net Position			<u>\$ 8,825,186</u>	

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